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STATE OF MONTANA
COAL SEVERANCE TAX BONDS
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM
1984 SERIES A

INDEX

A. Basic Documents

1. Copy of Montana Code Annotated Sections 17-5-701 through 17-5-719, certified by the Secretary of State.
2. Copy of 1983 Montana Laws Chapter 705, certified by the Secretary of State.
3. Certificate of the Secretary of State with respect to the election and incumbency of the Governor, the Secretary of State, and the Attorney General, and with respect to the appointment and incumbency of the Treasurer and the Director of the Department of Natural Resources and Conservation.
4. Signature Certificates of the Governor, the Secretary of State, and the Attorney General, certified by the Secretary of State.

B. Underwriting Documents

5. Preliminary Official Statement dated July 24, 1984.
6. Letter from the Director of the Department of Natural Resources and Conservation, dated August 1, 1984, recommending the issuance and sale of the Bonds.
7. General Resolution dated August 1, 1984.
8. Supplemental Resolution dated August 1, 1984.
9. Official Statement dated August 1, 1984.
10. Purchase Contract dated August 1, 1984.

C. Closing Documents

11. Closing Certificate of the Governor.
12. Closing Certificate of the Secretary of State.
13. Closing Certificate of the Attorney General.
14. Closing Certificate of the Director of the Department of Natural Resources and Conservation.
15. Certificate of the Treasurer with respect to Section 6.05 of the General Resolution.
16. Agreement of the Treasurer to act as Paying Agent with respect to the Bonds, to establish the accounts called for by the Resolutions, and to make the deposits, transfers and disbursements called for by the Resolutions.
17. Acceptance of the office of Bond Registrar by Norwest Bank Minneapolis, N.A..
18. Certificate of the Bond Registrar with respect to the incumbency and signatures of authorized officers.
19. Arbitrage Certificate.
20. Certificate of the Board of Examiners with respect to the execution of the Bonds, with specimen Bonds.
21. Order of the Board of Examiners to the Bond Registrar to authenticate and deliver the Bonds.
22. Certificate of the Bond Registrar with respect to the authentication and delivery of the Bonds.
23. Receipt for the Bonds by the Underwriters.
24. Order of the Board of Examiners to the Treasurer to receive and deposit the Bond proceeds and the transfer of amounts to the Debt Service Reserve Account.
25. Certificate of the Treasurer with respect to the receipt and deposit of the Bond proceeds, and the transfer of amounts to the Debt Service Reserve Account.

D. Opinion Letters

26. Approving opinion of Oitzinger & Mullendore, bond counsel, addressed to the Board of Examiners and delivered pursuant to Section 8(e)(1) of the Purchase Contract.
27. Supplemental Opinion of Oitzinger & Mullendore, bond counsel, addressed to the Board of Examiners.
28. Opinion of Oitzinger & Mullendore, bond counsel, addressed to the Purchasers and delivered pursuant to Section 8(e)(2) of the Purchase Contract.
29. Opinions of Dorsey & Whitney, counsel for the Purchasers, addressed to the Purchasers and delivered pursuant to Section 8(e)(4) of the Purchase Contract.
30. Letter from the Legislative Auditor to the Director of the Department of Natural Resources and Conservation
31. Blue Sky Memorandum of Dorsey & Whitney.
32. Legal Investment Survey of Dorsey & Whitney.

SECRETARY OF STATE


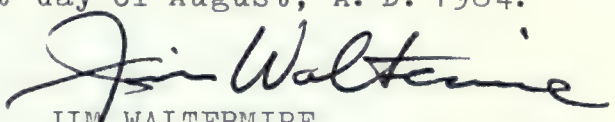


STATE OF MONTANA

UNITED STATES OF AMERICA-)
State of Montana) ss

I, JIM WALTERMIRE, Secretary of State of the State of Montana, do hereby certify that I am, by virtue of my office, in possession of a true copy of the Montana Code Annotated, 1983, as adopted by the legislature of the State of Montana; that I have compared the attached copies of Sections 17-5-701 through 17-5-719 of the Montana Code Annotated, 1983, with the originals as the same appear on record in my office and hereby declare and certify that the same is a full, true and correct copy of said sections.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the Great Seal of the State of
Montana, at Helena, the Capital,
this 1st day of August, A. D. 1984.



JIM WALTERMIRE
Secretary of State

Part 7

Coal Severance Tax Bonds — Water Development

Part Cross-References

Inalienable rights, Art. II, sec. 3, Mont. Const.
Protection and improvement, Art. IX, sec. 1, Mont. Const.
Severance tax on coal — trust fund, Art. IX, sec. 5, Mont. Const.

Coal severance tax — general provisions, Title 15, ch. 35, part 1.
Water resources — administration, Title 85, ch. 1, part 2.
Water development program, Title 85, ch. 1, part 6.
Dams and reservoirs, Title 85, ch. 15.

17-5-701. State of Montana coal severance tax bonds. This part provides for the issuance of state of Montana coal severance tax bonds (also referred to as coal severance tax bonds in this part) to finance water resource development projects and activities in the state designed to provide, during and after extensive coal mining, a healthy economy, the alleviation of social and economic impacts created by coal development, and a clean and healthful environment for present and future generations.

History: En. Sec. 24, Ch. 505, L. 1981.

17-5-702. Purpose and intent. (1) The purpose of the coal severance tax trust fund bond provisions of this part is to establish the authority to issue and sell coal severance tax bonds that have been approved by act of the legislature for financing specific water resource development projects and activities in the state authorized by the legislature and to guarantee redemption of such bonds by revenue derived from the receipts from the coal severance tax imposed by Title 15, chapter 35, part 1, and such other money as the legislature may from time to time determine.

and interest on all state of Montana coal severance tax bonds. All bonds issued after July 1, 1981, wherein the money in the coal severance tax bond fund is pledged for their retirement shall be called "state of Montana coal severance tax bonds".

History: En. Sec. 28, Ch. 505, L. 1981; amd. Sec. 20, Ch. 298, L. 1983.

Compiler's Comments

1983 Amendment: Throughout section, changed "subfund" to "fund".

17-5-706. Authority to issue coal severance tax bonds. The board of examiners, upon approval of the legislature as hereinafter provided, shall issue and sell coal severance tax bonds to finance such approved water resource development projects and activities when authorized to do so by any law that sets out the amount and purpose of the issue. Each project or activity shall be separately approved as to amount by a two-thirds vote of each house of the legislature.

History: En. Sec. 29, Ch. 505, L. 1981.

17-5-707. Board of examiners to issue bonds. The board of examiners may issue and sell coal severance tax bonds, and no other agency of the state is so authorized. Any action taken by the board of examiners under this part must be approved by a majority vote of its members.

History: En. Sec. 30, Ch. 505, L. 1981.

17-5-708. Special fund revenues. (1) If a law authorizing a coal severance tax bond issue for a specific purpose and in a specific amount contemplates the pledge and receipt of revenues, assets, or money other than or in addition to the money in the coal severance tax bond fund, then the money derived from such pledged revenues, assets, and money must be paid into a special bond fund for the benefit of such bonds, which must be part of a debt service fund of the state treasury fund structure.

(2) Money must be withdrawn from the coal severance tax bond fund and paid to the special bond fund as necessary to provide for payment of principal and interest on the coal severance tax bonds secured by a pledge of the special bond fund.

History: En. Sec. 31, Ch. 505, L. 1981; amd. Sec. 21, Ch. 298, L. 1983.

Compiler's Comments

1983 Amendment: In (1), substituted "severance tax bond fund" for "severance tax bond subfund", "special bond fund" for "special bond account", and "a debt service fund" for "the sinking fund"; and in (2), substituted "sev-

erance tax bond fund" for "severance tax bond account" and "special bond fund" for "special account".

Cross-References

Fund structure, 17-2-102.

17-5-709. Continued tax deposit limit on additional bonds. (1) The legislature shall provide for the continued assessment, levy, collection, and deposit into the coal severance tax bond fund of the coal severance tax which, together with such other revenues, assets, and money as may be deposited to one or more special bond funds pledged for the benefit of coal severance tax bonds, will be sufficient to produce an amount that is at least the amount necessary to pay, when due, the annual debt service charges on all outstanding coal severance tax bonds.

(2) The board of examiners may issue no coal severance tax bonds unless the aggregate amount of coal severance tax bonds outstanding, including the proposed issue and any other coal severance tax bonds authorized but not yet issued, can be serviced with no more than two-thirds of the annual deposits into the coal severance tax bond fund, as determined by the average of the deposits during the preceding 3 fiscal years, together with the average of the aggregate amount of revenues, assets, or money deposited in one or more special bond funds used to pay debt service on outstanding coal severance tax bonds during the preceding 3 fiscal years.

(3) The provisions of this section may not be modified so as to reduce the security for any coal severance tax bonds while such bonds are outstanding.

History: En. Sec. 32, Ch. 505, L. 1981; amd. Sec. 22, Ch. 298, L. 1983.

Compiler's Comments

1983 Amendment: In (1) and (2), substituted "severance tax bond fund" for "severance tax

bond subfund" and "special bond funds" for "special bond accounts".

17-5-710. Form — principal and interest — fiscal agent — deposit of proceeds. (1) Each series of coal severance tax bonds must be issued by the board of examiners at public or private sale, in such denominations and form, whether payable to bearer or registered as to principal or both principal and interest, with such provisions for the conversion or exchange, bearing interest at such rate or rates, maturing at such times not exceeding 40 years from date of issue, subject to redemption at such earlier times and prices and upon such notice, and payable at the office of such fiscal agency of the state as the board of examiners shall determine, subject to the limitations contained in this part.

(2) In all other respects the board of examiners is authorized to prescribe the form and terms of the bonds and shall do whatever is lawful and necessary for their issuance and payment.

(3) Coal severance tax bonds and any interest coupons appurtenant thereto shall be signed by the members of the board of examiners, and the bonds shall be issued under the great seal of the state of Montana. The bonds and coupons may be executed with facsimile signatures and seal in the manner and subject to the limitations prescribed by law. The state treasurer shall keep a record of all such bonds issued and sold.

(4) The board of examiners is authorized to employ a fiscal agent to assist in the performance of its duties hereunder.

(5) All proceeds of a state of Montana coal severance tax bonds issue shall be deposited in a capital projects fund or a state special revenue account established for that bond issue, except that any premiums and accrued interest received shall be deposited in a debt service fund established for that bond issue.

History: En. Sec. 33, Ch. 505, L. 1981; amd. Sec. 23, Ch. 298, L. 1983.

Compiler's Comments

1983 Amendment: In (5), substituted "a capital projects fund or a state special revenue account" for "a bond proceeds and insurance

clearance fund account" and substituted "debt service fund" for "sinking fund account".

Cross-References

Facsimile signatures and seals, 2-16-114.
Fund structure, 17-2-102.

17-5-711. Trust indenture. In the discretion of the board of examiners, a series of coal severance tax bonds may be secured by a trust indenture

by and between the board of examiners and a trustee, which may be any trust company or bank having the powers of a trust company within or outside of the state. Each trust indenture or an executed counterpart thereof shall be filed in the office of the secretary of state of Montana. The filing of a trust indenture or an executed counterpart thereof in the office of the county clerk of the county in which the property covered by the trust indenture is located is constructive notice of its contents to all persons from the time of the filing, and the recording of the trust indenture or its contents is not necessary.

History: En. Sec. 34, Ch. 505, L. 1981.

Cross-References

Duties of Secretary of State, 2-15-401.

Role and duties of county clerk, 7-4-2611.

Procedure to record documents, 7-4-2617.

Trust company defined — purposes for which may be formed, 32-1-107.

17-5-712. Provisions for protecting bondholders. Either the legislative act providing for the issuance of coal severance tax bonds or the trust indenture may contain provisions for protecting and enforcing the rights and remedies of the bondholders as are reasonable, proper, and not in violation of law, including covenants setting forth the duties of the state, the board of examiners, and the departments, boards, or agencies of state government in relation to the acquisition, construction, improvement, maintenance, operation, repair, and insurance of the projects financed with the proceeds of coal severance tax bonds and the custody, safeguarding, and application of all money. The trust indenture may set forth the rights and remedies of the bondholders as is customary in trust indentures, deeds of trusts, and mortgages securing bonds or debentures of corporations. No enumeration of particular powers granted by this section impairs any general grant of power contained in this part.

History: En. Sec. 35, Ch. 505, L. 1981.

17-5-713. Personal liability — suit to compel performance. (1) The members of the board of examiners and officers and employees of the departments, boards, or agencies of state government are not personally liable or accountable by reason of the issuance of or on any coal severance tax bond issued by the board of examiners.

(2) Any holder of coal severance tax bonds or any person or officer being a party in interest, subject to any applicable coal severance tax agreements or trust indentures, may sue to enforce and compel the performance of the coal severance tax bond provisions as set out in this part.

History: En. Sec. 36, Ch. 505, L. 1981.

Cross-References

Bonds of state officers and employees, Title 2, ch. 9, part 6.

17-5-714. Negotiability of bonds. Coal severance tax bonds issued are negotiable instruments under the Uniform Commercial Code, subject only to the provisions for registration of bonds.

History: En. Sec. 37, Ch. 505, L. 1981.

Cross-References

U.C.C. — investment securities, Title 30, ch. 8.

17-5-715. Signatures of board members. In the case any member of the board of examiners whose signature appears on coal severance tax bonds or coupons ceases to be a member before the delivery of the bonds, his signature is nevertheless valid and sufficient for all purposes, the same as if the member had remained in office until delivery.

History: En. Sec. 38, Ch. 505, L. 1981.

17-5-716. Refunding obligations. (1) The state board of examiners may provide for the issuance of refunding obligations for refunding any obligations then outstanding that have been issued under this part, including the payment of any redemption premium and any interest accrued or to accrue to the date of redemption of the obligations. The issuance of refunding obligations, the maturities and other details, the rights of the holders, and the rights, duties, and obligations of the state are governed by the appropriate provisions of this part that relate to the issuance of obligations.

(2) Refunding obligations issued as provided in subsection (1) may be sold or exchanged for outstanding obligations issued under this part. The proceeds may be applied to the purchase, redemption, or payment of outstanding obligations. Pending the application of the proceeds of refunding obligations, with other available funds, to the payment of principal, accrued interest, and any redemption premium on the obligations being refunded and, if permitted in the resolution authorizing the issuance of the refunding obligations or in the trust agreement securing them, to the payment of interest on refunding obligations and expenses in connection with refunding, the proceeds may be invested as provided in Title 17, chapter 6.

History: En. Sec. 39, Ch. 505, L. 1981.

17-5-717. Pledge of the state. In accordance with the constitutions of the United States and the state of Montana, the state pledges that it will not in any way impair the obligations of any agreement between the state and the holders of notes and bonds issued by the state.

History: En. Sec. 40, Ch. 505, L. 1981.

Cross-References

Ex post facto, obligation of contracts, and irrevocable privileges, Art. II, sec. 31, Mont. Const.

17-5-718. Tax exemption of bonds — legal investments. (1) All coal severance tax bonds, their transfer, and their income, including any profits made on their sale, are exempt from taxation by the state or any political subdivisions or other instrumentality of the state, excepting inheritance, estate, and gift taxes.

(2) Coal severance tax bonds are legal investments for any person or board charged with investment of public funds and are acceptable as security for any deposit of public money.

History: En. Sec. 41, Ch. 505, L. 1981.

Cross-References

Investments, Title 17, ch. 6, part 2.

17-5-719. Limitation on amount of coal severance tax bonds issued. No more than \$250 million worth of coal severance tax bonds may be issued for water development projects and activities.

History: En. Sec. 42, Ch. 505, L. 1981.

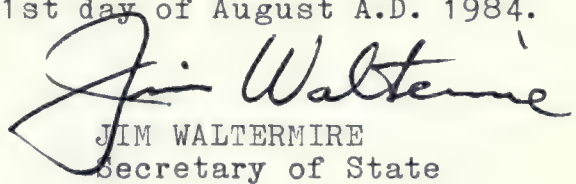
SECRETARY OF STATE



STATE OF MONTANA

I, JIM WALTERMIRE, Secretary of State of the State of Montana, hereby certify that I am, by virtue of my office, in possession of a true copy of the 1983 Montana Laws as adopted by the Forty-Eighth Legislature of the State of Montana; that I have compared the attached copy of Chapter 705 of the 1983 Montana Laws with the original copy of such Chapter on record in my office and hereby declare and certify that the attached copy is a full, true and correct copy of such Chapter as of record in this office on the date of this Certificate.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the Great Seal of the State of
Montana, at Helena, the Capital,
this 1st day of August A.D. 1984.


JIM WALTERMIRE
Secretary of State



IN THE SENATE

April 5, 1983	Introduced and referred to Committee on Finance and Claims.
April 14, 1983	Committee recommend bill be concurred in as amended. Report adopted. Second reading, concurred in as amended.
April 15, 1983	Third reading, concurred in. Ayes, 48; Noes, 0.

IN THE HOUSE

April 16, 1983	Returned to House with amendments.
April 18, 1983	Second reading, amendments not concurred in. On motion, Conference Committee requested and appointed.
April 20, 1983	Conference Committee dissolved. On motion, Free Conference Committee requested and appointed.
April 21, 1983	Free Conference Committee reported. Second reading, Free Conference Committee report adopted. Third reading, Free Conference Committee report adopted. Ayes, 93; Noes, 5.

April 21, 1983

Free Conference Committee
report adopted by Senate.

Sent to enrolling.

Reported correctly enrolled.

AN ACT TO APPROVE THE ISSUANCE OF STATE OF MONTANA COAL SEVERANCE TAX BONDS TO FINANCE THE DEVELOPMENT OF CERTAIN STATE HYDROELECTRIC PROJECTS, THE REHABILITATION AND REPAIR OF CERTAIN STATE PROJECTS, AND LOANS TO POLITICAL SUBDIVISIONS AND LOCAL GOVERNMENTS FOR CERTAIN APPROVED WATER DEVELOPMENT PROJECTS; TO APPROPRIATE COAL SEVERANCE TAX TRUST PROCEEDS FOR DEBT SERVICE; TO AUTHORIZE THE CREATION OF A STATE DEBT; TO ALLOW THE PRIVATE SALE OF MUNICIPAL REVENUE BONDS TO THE STATE OF MONTANA; AMENDING SECTION 7-7-4433, NCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Purpose and policy. (1) The legislature recognizes that it is the policy of the state of Montana to promote the conservation, development, and beneficial use of the state's water resources to secure maximum economic and social prosperity for its citizens.

(2) The legislature recognizes that the development and use of water resources and the efficient, economic distribution thereof are vital to protect existing uses and to assure adequate future supplies for domestic, industrial, agricultural, and other beneficial uses.

(3) The legislature reaffirms its previous declaration that the public interest requires the construction, operation, and maintenance of a system of works for the conservation, development, storage, distribution, and use of water, which

construction, operation, and maintenance is a single objective which is in all respects for the welfare and benefit of the people of this state.

(4) The legislature finds that the 1981 legislature, in Chapter 505, Laws of 1981, established a state water development program to provide financial and administrative assistance to private, local, and state entities for water resources development projects and activities.

(5) The legislature finds that 85-1-601 declares that the water development program is an integral part of the implementation and development of the comprehensive, coordinated, multiple-use water resources plan known as the state water plan and that Title 17, chapter 5, part 7, provides for the issuance of coal severance tax bonds for financing specific approved water resource development projects and activities as part of the state water development program.

(6) The legislature finds that the following water development projects approved in [sections 3, 4, and 5] will implement the state's policy of full use, conservation, and protection of its water resources:

(a) Department of natural resources and conservation hydroelectric development at Painted Rocks Dam, Broadwater Dam, and Cooney Dam;

(b) Department of natural resources and conservation repair and rehabilitation at Yellow Water Dam, Cottonwood Dam, and

Martinsdale Dam and Reservoir;

- (c) Three Forks water system improvement;
- (d) Manhattan wastewater treatment system improvement;
- (e) Manhattan water system capital improvements;
- (f) Roosevelt County rural water system construction;
- (g) Culbertson water supply and treatment facility

construction;

- (h) Geraldine rural water system construction;
- (i) South Kremlin-Gildford rural water system construction;
- (j) Huntley project irrigation district rehabilitation;
- (k) Lower Birch Creek watershed plan;
- (l) Ennis sewage treatment construction;
- (m) East Bench gravity flow irrigation project;
- (n) Bitterroot irrigation district Three Mile farm

irrigation measure;

- (o) Noxon rural water system improvement;
- (p) Belgrade water system improvements;
- (q) Columbia Falls water and sewer system improvements;
- (r) Conrad water system improvements;
- (s) Sage Creek water district;
- (t) Shelby sewer system improvements;
- (u) Hot Springs sewer system improvements;
- (v) Power-Teton County sewer system improvements;
- (w) Libby sewer system improvements;
- (x) Big Fork sewer system improvements.

Section 2. Appropriation and creation of debt for coal severance tax bonds. (1) The legislature, through the enactment of this section by a vote of three-fourths of the members of each house of the legislature as required by Article IX, section 5, of the Montana constitution, pledges, dedicates, and appropriates from the coal severance tax bond subfund all money necessary for the payment of principal and interest not otherwise provided for on the state of Montana coal severance tax bonds authorized by this act to be issued pursuant to Title 17, chapter 5, part 7, and pursuant to the further provisions of [this act].

(2) The legislature, through the enactment of this section, in accordance with Article VIII, section 8, of the Montana constitution authorizes the creation of a state debt in an amount not to exceed \$45.35 million for the development of the state hydroelectric projects approved in [section 3], in an amount not to exceed \$551,900 for the rehabilitation of state water projects approved in [section 4], and in an amount not to exceed \$17,044,735 for loans to local government entities for water development projects approved in [section 5], all for the issuance of state of Montana coal severance tax bonds authorized by [this act].

Section 3. Approval of coal severance tax bonds for state hydroelectric projects -- repayment provisions. (1) The board of examiners may issue state of Montana coal severance tax bonds:

(a) to a maximum amount of \$12.9 million for the development

of the hydropower potential at the department of natural resources and conservation's Painted Rocks Dam under the authorization granted by the federal energy regulatory commission for project number 4657;

(b) to a maximum amount of \$28.6 million for the development of the hydropower potential at the department of natural resources and conservation's Broadwater Dam under authorization pending before the federal energy regulatory commission for project number 2853; and

(c) to a maximum amount of \$3.85 million for the development of the hydropower potential at the department of natural resources and conservation's Cooney Dam under an authorization from the federal energy regulatory commission to be applied for pursuant to the preliminary permit issued for project number 4700.

(2) Bonds approved in this section may not be issued by the board of examiners until the board of natural resources and conservation has determined that a project is feasible and has otherwise complied with the requirements of Title 85, chapter 1, part 5, for the development of hydropower at water projects under the control of the department.

(3) The maximum amount of bond revenue for each project approved in this section shall also include all and any relocation, reconstruction, remuneration, or other costs for which the department is legally liable that affect existing irrigation systems, private lands, utility lines, mines, roads, highways, and

railroads that are subsequently affected by the development of a respective hydroelectric project.

(4) The hydropower revenues from each project are pledged, dedicated, and appropriated to a special bond account created for that specific project in the sinking fund of the state treasury for the benefit of the bonds approved for that specific project. The board of examiners may allocate a portion of the bond proceeds for a specific project from the bond proceeds and insurance clearance fund account to the special sinking account for that specific project for the payment of interest on the bonds during construction, for the establishment of necessary reserves, and for the operation and maintenance of the hydropower facilities.

(5) In connection with the issuance of bonds, the board of examiners may provide for the operation and maintenance of the hydropower facilities, pay the principal and interest on the bonds when due from each special bond account, create and maintain necessary reserves within each special bond account, and in all other respects manage and use the funds within each special bond account for the benefit of the bonds for the particular hydropower project.

(6) The board of examiners shall exercise its discretion to enhance the marketability of the bonds, to secure the most advantageous financial arrangements for the state, and to provide to the extent possible that all costs, including operation and maintenance and debt service, are paid out of project revenues and

bond proceeds.

(7) Excess funds in any special sinking account as determined by the board of examiners must be allocated to the water development earmarked account to be used for the purposes set forth in 85-1-604(3)(b).

Section 4. Approval of coal severance tax bonds for rehabilitation and repair of state water projects -- repayment provisions. (1) The board of examiners may issue state of Montana coal severance tax bonds:

(a) to a maximum amount of \$92,000 for repair and rehabilitation of the department of natural resources and conservation's Yellow Water Dam in Petroleum County;

(b) a maximum amount of \$201,000 for the repair of the department of natural resources and conservation's Cottonwood Dam in Park County; and

(c) to a maximum amount of \$257,000 for the repair and rehabilitation of the department of natural resources and conservation's Martinsdale Dam and Reservoir in Meagher and Wheatland Counties.

(2) Bonds may be issued by the board of examiners after the water users for each project have entered into contractual agreements providing for the repayment of the cost of repair and rehabilitation at a rate of interest equal to that which must be paid on bonds issued pursuant to [this section]. The repayment money from each project is pledged, dedicated, and appropriated to

a special bond account in the sinking fund of the state treasury for the benefit of the bonds approved for such project.

(3) In connection with the issuance of bonds, the board of examiners may pay the principal and interest on the bonds when due from the special bond account and in all other respects manage and use the funds within each special bond account for the benefit of the bonds. The board of examiners shall exercise its discretion to enhance the marketability of the bonds and to secure the most advantageous financial arrangements for the state.

(4) Earnings on bond proceeds prior to the completion of any loan shall be allocated to the special bond account to pay interest on the bonds during this period. Earnings in excess of bond interest, if any, shall be allocated to the water development earmarked account and may be used for the purposes allowed under 85-1-604(3)(b).

Section 5. Authorization of coal severance tax bond loans to government entities. The board of examiners may issue state of Montana coal severance tax bonds in an amount not to exceed \$17,044,735 for the purpose of making the loans set forth in [section 6] from the bond proceeds to political subdivisions and local government entities and for the purpose of paying the cost of issuance of the bonds.

Section 6. Political subdivision projects. (1) The bonds authorized under [section 5] may be issued as follows:

(a) (i) Bonds to a maximum amount of \$1,100,000 may be

issued for a loan to the city of Three Forks for the purpose of financing improvements in the city's water system.

(ii) The project, which will rehabilitate existing components of the city water system and change the source of the water supply from the Madison River drainage to the Jefferson River drainage, is needed to resolve the health hazard in the city's existing water supply caused by excessive levels of arsenic.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(b) (i) Bonds to a maximum amount of \$130,000 may be issued for a loan to the city of Manhattan for the purpose of financing improvements in the city's wastewater treatment system.

(ii) The project is needed because the existing city wastewater stabilization ponds provide inadequate treatment to meet future effluent limitations.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(c) (i) Bonds to a maximum amount of \$170,000 may be used for a loan to the city of Manhattan for the purpose of financing capital improvements in the city's water system.

(ii) The project is needed for promotion of conservation of

water by encouraging city water customers to use less water and for rehabilitation of the water system.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(d) (i) Bonds to a maximum amount of \$1,790,000 may be issued for a loan to the Roosevelt County rural water district for the purpose of financing construction of a proposed water distribution system for domestic and stock use for eastern Roosevelt County.

(ii) The project is needed to supply water to those residents of the county who must haul water because of poor quality ground water and to prevent health problems caused by consumption of poor quality water.

(iii) The loan must be repaid at a 6 1/2% interest rate.

(e) (i) Bonds to a maximum amount of \$704,000 may be issued for a loan to the town of Culbertson for the purpose of financing the construction of a water supply and treatment facility for the town.

(ii) The project is needed to prevent health problems associated with poor water quality through the use of more sophisticated water treatment methods and to increase the town's capacity to service present and future users with safe, potable water.

(iii) The loan must be repaid at a 5% interest rate.

(f) (i) Bonds to a maximum amount of \$1,733,200 may be issued for a loan to the Geraldine rural county water district for the purpose of the development of a rural water system in the Geraldine area.

(ii) The project is needed to alleviate the situation caused by poor quality ground water in the area. The majority of the area's residents must haul both domestic and stock water.

(iii) The loan must be repaid at a 6 1/2% interest rate.

(g) (i) Bonds to a maximum amount of \$336,035 may be issued for a loan to the South Kremlin-Gildford water district for the purpose of the development of a rural water system in an area where ground water is of insufficient quantity and quality.

(ii) The project is needed to alleviate the health and economic problems caused by the lack of potable ground water. At present most residents must haul both domestic and stock water.

(iii) The loan must be repaid at a 6 1/2% interest rate.

(h) (i) Bonds to a maximum amount of \$162,000 may be issued for a loan to the Huntley project irrigation district for the purpose of rehabilitation of the project.

(ii) The project is needed to improve the performance of the water supply system and to ensure the availability of sufficient water for irrigation.

(iii) The loan must be repaid at a 6% interest rate.

(i) (i) Bonds to a maximum amount of \$555,000 may be issued

for a loan to the Pondera soil conservation district for the purpose of partial financing of the Lower Birch Creek watershed plan.

(ii) The watershed plan is needed to solve the area's irrigation water shortage problem by stabilizing and improving the major supply features of the system and to ensure an adequate water supply to the nearby city of Conrad.

(iii) The loan must be repaid at a 6% interest rate.

(j) (i) Bonds to a maximum amount of \$180,000 may be issued for a loan to the city of Ennis for the purpose of financing, in part, sewage treatment construction.

(ii) The project is needed to build an additional sewage settling cell in the city of Ennis because the present sewage treatment system is inadequate to meet the demands of the city's rising population and is not in compliance with federal standards.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(k) (i) Bonds may be issued for the purpose of a loan to the East Bench gravity flow project to provide financing to the project in accordance with subsection (ii) or (iii) of this subsection (k).

(ii) If the application for federal aid for the East Bench gravity flow project is not approved by August 1, 1983, bonds may

be issued in an amount not to exceed \$3,230,000 to finance a loan to the East Bench irrigation district. This loan must be repaid at a 3% interest rate.

(iii) If the application for federal aid for the East Bench gravity flow project is approved by August 1, 1983, bonds may be issued for the difference between a total project cost of \$4,383,000 and the total amount of federal aid received by the project to finance a loan to the East Bench gravity company. This loan must be repaid at a 3% interest rate.

(iv) This project is needed to alleviate low pressure problems at the lower end of the project and to eliminate pumping costs.

(v) Remaining funds from the appropriation in House Bill 709 of the 47th Legislature for the East Bench irrigation project are reappropriated for the project for the biennium ending June 30, 1985.

(1) (i) Bonds to a maximum amount of \$1,180,000 may be issued for a loan to the Bitterroot irrigation district for the purpose of financing, in part, the Three Mile farm irrigation measure, involving conversion of the irrigation system serving the area from pumped to gravity sprinkler irrigation.

(ii) This project is needed to alleviate present water shortages to reduce the cost of irrigation and to conserve water.

(iii) The loan must be repaid at a 3% interest rate.

(n) (i) Bonds to a maximum of \$122,000 may be issued for a

loan to the Noxon rural improvement district for the purpose of financing rehabilitation of the community's water system.

(ii) The project is needed because the present wooden lines have leakage problems and contamination is being drawn into the distribution system causing a health hazard.

(iii) The loan must be repaid at a 5% interest rate.

(n) (i) Bonds to a maximum amount of \$1,235,000 may be issued for a loan to the city of Belgrade for the purpose of financing improvements in the city's water system.

(ii) The project, which will rehabilitate existing components of the city water system, construct an additional well to supply the water system, and install residence meters, is needed to meet the demands of the city's growing population and to conserve the available water for future use.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(o) (i) Bonds to a maximum amount of \$200,000 may be issued for a loan to the city of Columbia Falls for the purpose of partially financing improvements to city water and sewer lines.

(ii) The project is needed to replace existing water and sewer lines with new larger lines and because of the reconstruction of highway 2 in the area where the lines are located.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(p) (i) Bonds to a maximum amount of \$500,000 may be issued for a loan to the city of Conrad for the purpose of financing improvements in the city's water system.

(ii) The project, which will replace a transmission line from the existing treatment plant to the distribution system, is needed because the existing steel pipe transmission has numerous breaks and has deteriorated to the extent that it cannot provide a reliable supply of water to the city.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(q) (i) Bonds to a maximum amount of \$750,000 may be issued for a loan to the Sage Creek water district, if that district is formed prior to the sale of bonds pursuant to this act, for the purpose of financing construction of a rural water supply system for northern Liberty and Hill Counties.

(ii) The project is needed because residents of the area now must haul domestic water because of the scarcity and poor quality of ground water, and it is probable that they will have to haul stock water in the future.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(r) (i) Bonds to a maximum amount of \$592,000 may be issued for a loan to the city of Shelby for the purpose of partially financing rehabilitation of the city's sewer system.

(ii) The project is needed to replace pipes that have deteriorated because of age and that are inadequate in size to serve the population of Shelby.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(s) (i) Bonds to a maximum amount of \$132,000 may be issued for a loan to the town of Hot Springs for the purpose of sewer system improvements.

(ii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(t) (i) Bonds to a maximum amount of \$200,000 may be issued for a loan to the Power-Teton water and sewer district for the purpose of partially financing improvements to the town of Power's sewer system.

(ii) The project is needed to install a collection and treatment facility to address the present health hazard and pollution problem.

(iii) The loan must be repaid at a 7% interest rate. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(u) (i) Bonds to a maximum amount of \$590,500 may be issued for a loan to the city of Libby for the purpose of partially financing construction of a secondary sewage treatment plant for the city.

(ii) The project is needed because the city's present sewage treatment system is not in compliance with public health standards.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(v) (i) Bonds to a maximum amount of \$250,000 may be issued for a loan to the city of Big Fork for the purpose of partially financing rehabilitation of the city's sewage treatment plant.

(ii) The project is needed because the existing treatment plant is inadequate to meet the needs of the city and, as a result, poor quality effluent is being discharged by the system.

(iii) The loan must be repaid at a 7% interest rate for the first 5 years following loan issuance and at the full bond rate

thereafter. A pro rata share, based on the amount of the loan, of the incurred administrative costs must be repaid.

(2) Loan repayments, both loan principal, fixed bond sale costs, and interest, are pledged, dedicated, and appropriated to a special bond account in the sinking fund of the state treasury for the benefit of bonds approved for loans under this section. Repayment, both principal and interest, of incurred administrative cost must be made to the water development earmarked account created in 85-1-604 to be reused for the administration of the water development loan and grant program. The interest rates applicable to any of the projects listed in [this section] shall be the lower of the specified rate cited for each project or the rate that must be paid on bonds issued pursuant to [section 5].

(3) In connection with the issuance of bonds, the board of examiners may pay the principal and interest on the bonds when due from the special bond account and in all other respects manage and use the funds within the special bond account for the benefit of the bonds. The board of examiners shall exercise its discretion to enhance the marketability of the bonds and to secure the most advantageous financial arrangements for the state.

(4) Earnings on bond proceeds prior to the completion of any loan must be allocated to the special bond account to pay interest on the bonds during this period. Earnings in excess of bond interest, if any, must be allocated to the water development earmarked account and may be used for the purposes allowed under

85-1-604(3)(c).

(5) (a) The legislature's approval of loans for projects listed in this section is subject to the recipient's provision to the board of examiners of information and material necessary for the purposes of completion of contractual agreements and for bond sale purposes. This information and material must be provided on a schedule that will allow bond sale schedules to be met. Prior to the issuance of the bonds, the department of natural resources and conservation shall review the projects to determine their technical and financial feasibility and report to the board of examiners. The loans are conditioned upon compliance with the requirements of this subsection (5) meeting the approval of the board of examiners and upon such other conditions the board of examiners may impose that are necessary for the completion of contractual agreements and for bond sale purposes.

(b) Loans for projects listed in this section are subject to the approval of the governing body of the political subdivision.

Section 7. Section 7-7-4433, MCA, is amended to read:

"7-7-4433. Sale of bonds. (1) Bonds authorized to be issued under this part shall be sold at not less than par.

(2) (a) Said bonds may be sold at private sale to the United States ~~or the state of Montana~~ or any agency, instrumentality, or corporation thereof.

(b) Unless sold to the United States ~~or the state of Montana~~ or ~~an~~ agency, instrumentality, or corporation thereof, said bonds

shall be sold at public sale after notice of such sale."

Section 8. Severability. If a part of this act is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of this act is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 9. Effective date. This act is effective on passage and approval.

I hereby certify that the
within bill originated in
the House.

Colan F. Owens
Chief Clerk

Samuel Kemmis
Speaker of the House
Signed this 29th day
of April 1983.

Stacy D. Doherty
President of the Senate
Signed this 28th day
of April 1983.

THE JOURNAL OF THE
ROYAL ANTHROPOLOGICAL INSTITUTE
OF GREAT BRITAIN AND IRELAND
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CHAPTER NO. 705

HOUSE BILL NO. 885

INTRODUCED BY JACOBSEN, THOFT, BENGTSON, UNDERDAL,
SHAW, KOLSTAD, SPAETH, BACHINI, AKLESTAD, KEYSER, DEVLIN,
LANE, E. SMITH, LEE, TVEIT, HAGER, STEPHENS, DOVER,
OCHSNER, STIMATZ, ABRAMS, HARP, C. SMITH, KOEHNKE,
PECK, PISTORIA, O'CONNELL, BLISS, MUELLER, SALES,
SWIFT, MANUEL, SAUNDERS, SCHYE, J. HAMMOND

AN ACT TO APPROVE THE ISSUANCE OF STATE OF MONTANA COAL SEVERANCE
TAX BONDS TO FINANCE THE DEVELOPMENT OF CERTAIN STATE
HYDROELECTRIC PROJECTS, THE REHABILITATION AND REPAIR OF CERTAIN
STATE PROJECTS, AND LOANS TO POLITICAL SUBDIVISIONS AND LOCAL
GOVERNMENTS FOR CERTAIN APPROVED WATER DEVELOPMENT PROJECTS; TO
APPROPRIATE COAL SEVERANCE TAX TRUST PROCEEDS FOR DEBT SERVICE;
TO AUTHORIZE THE CREATION OF A STATE DEBT; TO ALLOW THE PRIVATE
SALE OF MUNICIPAL REVENUE BONDS TO THE STATE OF MONTANA; AMENDING
SECTION 7-7-4433, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE.

This bill was received by
the Governor this 29 day
of April 1983

Joe Schumacher
Governor

By Debbie J. Lomen
Approved April 30, 1983

Joe Schumacher
Governor

STATE OF MONTANA

FILE

May 2, 1983

JIM WALTERMIRE
SECRETARY OF STATE

By Marion F. Goulet
Dep.

CHAPTER NO. 705-

HOUSE BILL NO. 885

INTRODUCED BY JACOBSEN, THOFT, BENGTSON, UNDERDAL,
SHAW, KOLSTAD, SPAETH, BACHINI, AKLESTAD, KEYSER, DEVLIN,
LANE, E. SMITH, LEE, TVEIT, HAGER, STEPHENS, DOVER,
OCHSNER, STIMATZ, ABRAMS, HARP, C. SMITH, KOEHNKE,
PECK, PISTORIA, O'CONNELL, BLISS, MUELLER, SALES,
SWIFT, MANUEL, SAUNDERS, SCHYE, J. HAMMOND

IN THE HOUSE

February 16, 1983

Introduced and referred to
Committee on State
Administration.

February 18, 1983

On motion by Chief Sponsor,
Representatives Koehnke, Peck,
et al., were added as sponsors
to the bill.

Committee recommend bill do
pass as amended. Report
adopted.

February 19, 1983

Bill printed and placed on
members' desks.

February 21, 1983

On motion taken from second
reading and referred to
Committee on Appropriations.

March 28, 1983

Committee recommend bill
do pass as amended. Report
adopted.

Bill printed and placed on
members' desks.

Second reading, do pass as
amended.

Third reading, passed.
Transmitted to Senate.

CERTIFICATE OF THE SECRETARY OF STATE
AS TO ELECTION OR APPOINTMENT AND INCUMBENCY

I, Jim Waltermire, Secretary of State of the State of Montana, do hereby certify as follows:

1. According to the records and files in my office the persons listed below have been duly elected to and presently hold the offices shown opposite their name, for the term of office shown opposite their name:


<u>Name</u>	<u>Office</u>	<u>Term</u>
Ted Schwinden	Governor	1/5/81 - 1/1/85
Jim Waltermire	Secretary of State	1/5/81 - 1/7/85
Mike Greely	Attorney General	1/5/81 - 1/7/85

2. Pursuant to Sections 2-15-1007, 2-15-201(13, 2-15-401(10) and 2-15-501(11) of the Montana Code Annotated, Ted Schwinden, Jim Waltermire and Mike Greely are the members of the Board of Examiners of the State of Montana.

3. According to the records and files in my office the persons listed below have been duly appointed to and presently hold the positions shown opposite their names:

Morris L. Brusett	Director of the Department of Administration and Treasurer
Leo Berry	Director of the Department of Natural Resources and Conservation

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of Montana, at Helena, the Capital, this 1st day of August, 1984.


JIM WALTERMIRE
Secretary of State





CERTIFICATION
OF
MANUAL SIGNATURE UNDER THE UNIFORM FACSIMILE
SIGNATURES OF PUBLIC OFFICIALS ACT

TO THE SECRETARY OF STATE OF THE STATE OF MONTANA:

I, Ted Schwinden, Governor
(Name) (Title)

the undersigned, do hereby certify that my signature annexed to this certification is my true and correct manual signature, and is in the exact form in which it will appear in facsimile upon any public security or instrument of payment which I may be required or permitted by law to sign:

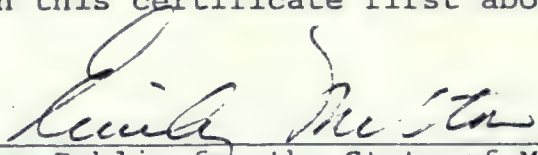
I further certify that this certification is made for the purpose of compliance with Section 2-16-114 MCA, being the Uniform Facsimile Signatures of Public Officials Act.

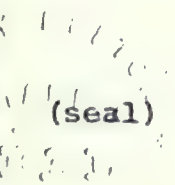

(Signature)

STATE OF MONTANA)
County of Lewis and Clark) ss.

On this 6th day of February, A.D. 19 81 before me, Emily Melton, a Notary Public in and for the state of Montana, personally appeared Ted Schwinden, known to me to be the person whose name is subscribed to the foregoing certification and declared to me upon oath that he executed the same and that the matters set forth therein are true.

In witness whereof, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.


Notary Public for the State of Montana
Residing at Helena, Montana
My commission expires January 23, 1984.



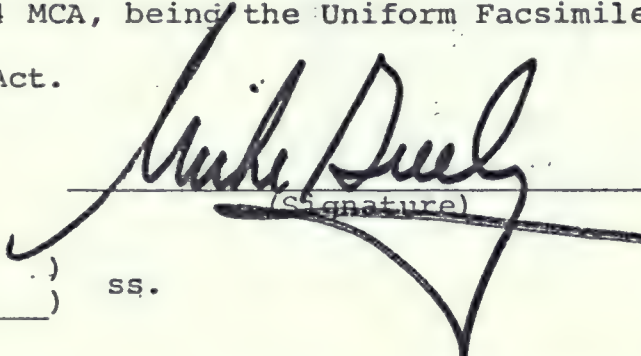
CERTIFICATION
OF
MANUAL SIGNATURE UNDER THE UNIFORM FACSIMILE
SIGNATURES OF PUBLIC OFFICIALS ACT

TO THE SECRETARY OF STATE OF THE STATE OF MONTANA:

I, MIKE GREELY, ATTORNEY GENERAL
(Name) (Title)

the undersigned, do hereby certify that my signature annexed to this certification is my true and correct manual signature, and is in the exact form in which it will appear in facsimile upon any public security or instrument of payment which I may be required or permitted by law to sign:

I further certify that this certification is made for the purpose of compliance with Section 2-16-114 MCA, being the Uniform Facsimile Signatures of Public Officials Act.

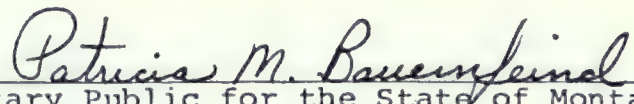

(Signature)

STATE OF MONTANA)
County of Lewis & Clark) ss.

On this 9th day of September, A.D. 19 80 before me, Patricia M. Bauernfeind, a Notary Public in and for the state of Montana, personally appeared Mike Greely, known to me to be the person whose name is subscribed to the foregoing certification and declared to me upon oath that he executed the same and that the matters set forth therein are true.

In witness whereof, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

(seal)


Notary Public for the State of Montana
Residing at Clancy, Montana
My commission expires 1/17/83.

(Please return to Secretary of State,
Capitol, Helena, Montana 59601)

CERTIFICATION OF MANUAL SIGNATURE

MIKE GREELY

STATE OF MONTANA

FILED

September 9, 1980

FRANK MURRAY

SECRETARY OF STATE

By *Marian F. Greece*
Deputy

RECEIVED
HELENA, MONTANA
SEP 9 9 15 AM '80
FRANK MURRAY
SECRETARY OF STATE

CERTIFICATION
OF
MANUAL SIGNATURE UNDER THE UNIFORM FACSIMILE
SIGNATURES OF PUBLIC OFFICIALS ACT

TO THE SECRETARY OF STATE OF THE STATE OF MONTANA:

I, JIM WALTERMIRE, SECRETARY OF STATE
(Name) (Title)

the undersigned, do hereby certify that my signature annexed to this certification is my true and correct manual signature, and is in the exact form in which it will appear in facsimile upon any public security or instrument of payment which I may be required or permitted by law to sign:

I further certify that this certification is made for the purpose of compliance with Section 2-16-114 MCA, being the Uniform Facsimile Signatures of Public Officials Act.

Jim Waltermire
(Signature)

STATE OF MONTANA)
County of Lewis and Clark) ss.

On this 29th day of January, A.D. 19 81 before me, Marian F. Campbell, a Notary Public in and for the state of Montana, personally appeared Jim Waltermire, known to me to be the person whose name is subscribed to the foregoing certification and declared to me upon oath that he executed the same and that the matters set forth therein are true.

In witness whereof, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

Marian F. Campbell
Notary Public for the State of Montana
Residing at Helena, Montana
My commission expires August 25, 1982.

(seal)

(Please return to Secretary of State,
Capitol, Helena, Montana 59601)

RECEIVED
HITLER, MONTANA

1981 12 43 PM 101

CERTIFICATION OF MANUAL SIGNATURE

JIM WALTERMIRE

STATE OF MONTANA

FILED

January 29, 1981

JIM WALTERMIRE

DEPUTY

By *Jim Waltermire*
Deputy

OFFICIAL STATEMENT

\$11,000,000*
State of Montana
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

Dated August 1, 1984

Due December 1, as shown below

The 1984 Series A Bonds are being issued for the purpose of making loans to certain local government entities, political subdivisions and water users' associations within the State of Montana in order to finance various water development projects. **The 1984 Series A Bonds are limited obligations of the State of Montana payable solely from and secured by certain coal severance tax revenues and by the revenues of the water development projects financed with the proceeds of the 1984 Series A Bonds, as more fully described herein.** The State has covenanted to assess, levy and collect the coal severance tax in an amount which, together with the other revenues pledged for repayment of the 1984 Series A Bonds, will be sufficient to provide for payment of the principal of and interest on such Bonds. The Resolutions under which the 1984 Series A Bonds are issued permit the issuance of additional bonds, as more fully described herein.

The 1984 Series A Bonds will be issued as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof. Interest on the 1984 Series A Bonds is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 1984, by check or draft mailed to the registered owners of such Bonds as of the record dates, which are the May 15 or November 15 preceding each interest payment date. Principal of the 1984 Series A Bonds is payable at the office of the Treasurer of the State of Montana, Paying Agent, in Helena, Montana, or at the option of the holder at the principal office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, Paying Agent and Bond Registrar. The 1984 Series A Bonds maturing after December 1, 1994 are subject to redemption prior to maturity as more fully described herein.

\$3,735,000 Serial Bonds*

<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price</u>
1985	\$200,000	%	%	1991	\$305,000	%	%
1986	210,000			1992	335,000		
1987	225,000			1993	365,000		
1988	245,000			1994	395,000		
1989	260,000			1995	435,000		
1990	285,000			1996	475,000		
	\$2,435,000*	% Bonds Due December 1, 2000—Price				%	
	\$4,830,000*	% Bonds Due December 1, 2005—Price				%	
		(plus accrued interest)					

In the opinion of Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the 1984 Series A Bonds is exempt from federal income taxes. Furthermore, in the opinion of Bond Counsel, under existing Montana laws, interest on the 1984 Series A Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

The 1984 Series A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Oitzinger & Mullendore, Helena, Montana, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Dorsey & Whitney, Minneapolis, Minnesota. It is expected that the 1984 Series A Bonds will be available for delivery in New York, New York on or about

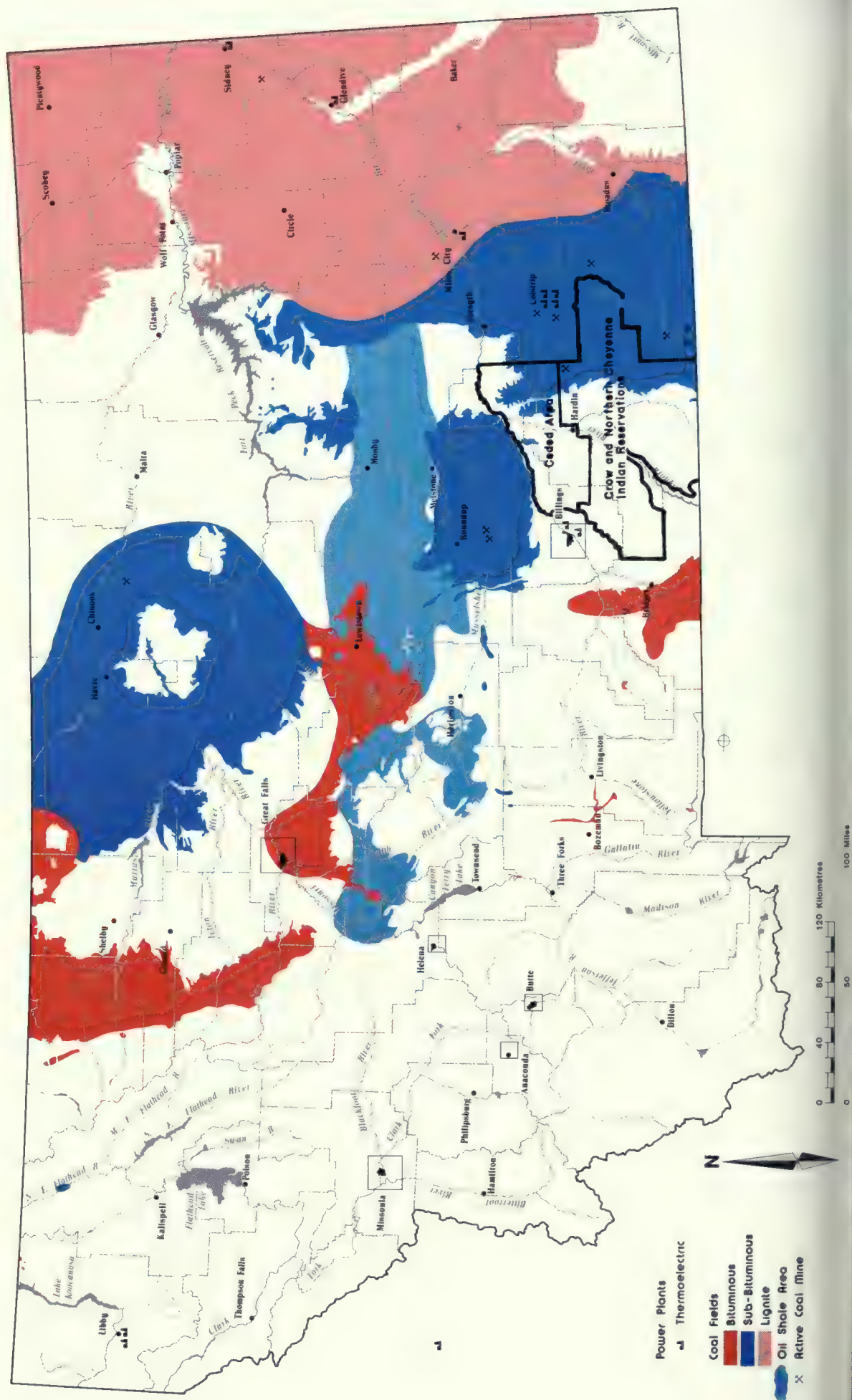
The First Boston Corporation

Dain Bosworth Incorporated**D. A. Davidson & Co.**

The date of this Official Statement is August , 1984.

* Subject to change.

Montana Coal Resources and Related Facilities



STATE OF MONTANA

Ted Schwinden
Governor

Morris L. Brusett
*Director, Department of Administration
and
Ex-officio State Treasurer*

MONTANA BOARD OF EXAMINERS

Jim Waltermire
Secretary of State

Ted Schwinden
Governor

Michael T. Greely
Attorney General

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Gordon G. Holte
Chairman

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Vice Chairman

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William A. Shields

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Cecil Weeding

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

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Director

Robert J. Robinson
Deputy Director

Gary Fritz
*Administrator, Water Resources
Division*

Caralee Cheney
*Chief, Water Development
Bureau*

Richard Bondy
Chief, Engineering Bureau

**OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
*Auditors***

OITZINGER & MULLENDORE
Helena, Montana
Bond Counsel

EVENSEN DODGE, INC.
Minneapolis, Minnesota
Financial Consultants

IN CONNECTION WITH THE OFFERING OF THE 1984 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$11,000,000*

State of Montana

Coal Severance Tax Bonds

Department of Natural Resources and Conservation

Water Development Program

1984 Series A

INTRODUCTION

This Official Statement (including the cover page and the appendixes attached hereto) provides certain information in connection with the issuance by the State of Montana (the "State") of its Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "1984 Series A Bonds"), in the aggregate principal amount of \$11,000,000*.

The 1984 Series A Bonds are being issued pursuant to Montana Code Annotated ("MCA") Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (referred to collectively herein as the "Enabling Act"); a general resolution adopted by the Board of Examiners of the State (the "Board") on , 1984 (the "General Resolution"); and a supplemental resolution adopted by the Board on , 1984 (the "Supplemental Resolution"; the General Resolution and the Supplemental Resolution are sometimes referred to collectively herein as the "Resolutions"). The 1984 Series A Bonds and all other series of bonds issued pursuant to the Resolutions and the Enabling Act are referred to herein as the "Bonds".

The Enabling Act and 1981 Montana Laws H.B. 846 authorize the issuance of up to \$72,946,635 of Coal Severance Tax Bonds, \$45,350,000 of which may be issued to finance development of the hydroelectric generating potential of three state-owned dams, \$10,551,900 of which may be issued to finance the rehabilitation of four state-owned dams, and \$17,044,735 of which may be issued to make loans to certain local government entities, political subdivisions and water users' associations to finance the construction of various water projects. The State does not expect to issue the full amount of Bonds authorized for these purposes, and Bonds cannot be issued to finance hydroelectric projects until the Board of Natural Resources and Conservation has determined that such projects are economically feasible. See "The Water Development Program."

The 1984 Series A Bonds are being issued in order to make loans (the "Loans") to various local government entities, political subdivisions and water users' associations in order to finance various water, sewer, irrigation and dam rehabilitation projects. The Loans will be administered by the State's Department of Natural Resources and Conservation (the "Department") and will be made for the purposes and on the terms and conditions described in Appendix A, "Descriptions of the Loans and Projects Financed with the 1984 Series A Bonds."

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by a portion of the State's coal severance tax, the repayments received with respect to the Loans, the amounts in the Debt Service Reserve Account, the amounts, if any, in the Surplus Project Revenue Account, and the proceeds of the 1984 Series A Bonds. The 1984 Series A Bonds are the first series of Bonds to be issued pursuant to the Enabling Act and the General Resolution.

The State has covenanted in the Enabling Act and the General Resolution to provide for the continued assessment, levy, collection and deposit of coal severance taxes in amounts which, together with

* Subject to change.

the other revenues, assets and moneys pledged for payment of the Bonds, will be sufficient to pay the debt service on such Bonds. In addition, the State has covenanted in the General Resolution to maintain an amount not less than the maximum annual principal and interest due on the Bonds in a Debt Service Reserve Account. See "Security and Sources of Payment for the 1984 Series A Bonds." The constitutionality of the Enabling Act and the pledge of coal severance tax revenues and project revenues for payment of the Bonds was upheld by the Montana Supreme Court in *Grossman v. State of Montana*, decided May 7, 1984. See "Montana Supreme Court Decision."

Under the General Resolution no additional series of Bonds are permitted to be issued unless the average amount of coal severance tax revenues deposited into the Trust Fund Bond Account during the three fiscal years preceding the issuance of such additional Bonds is at least twice the maximum annual debt service due on such additional Bonds and all other outstanding Bonds in any future fiscal year. No Bonds are permitted to be issued with a lien on the revenues pledged for payment of the 1984 Series A Bonds that is superior to the lien of the 1984 Series A Bonds on such revenues. The Enabling Act presently permits the issuance of no more than \$250,000,000 of Bonds.

This Official Statement describes the terms of and security for the 1984 Series A Bonds and the water development projects to be financed with the proceeds of the 1984 Series A Bonds. Also included are summaries of certain provisions of the Resolutions. All references herein to the Resolutions and the Enabling Act are qualified in their entirety by reference to such documents. All references to the 1984 Series A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions. Terms capitalized and not defined herein shall have the meanings as defined in the Resolutions.

MONTANA SUPREME COURT DECISION

In October, 1983, a Montana taxpayer brought a declaratory judgment action, *Grossman v. State of Montana*, against the State of Montana to address the constitutionality of the Enabling Act on a number of grounds. In an opinion dated May 7, 1984, the Montana Supreme Court affirmed the constitutionality of the Enabling Act in every respect addressed in the case and held that the debt created by the Bonds issued pursuant to the Enabling Act would be a valid and enforceable obligation of the State; that the pledge and appropriation of coal severance tax revenues made in the Enabling Act was binding on future legislatures; that the Bonds authorized by the Enabling Act have a public purpose; that the Enabling Act does not make an appropriation for industrial purposes to any private individual, association or corporation not under the control of the State; that the appropriations made by the Enabling Act to pay debt service on the Bonds are complete and require no further legislative action; that the Enabling Act does not make any impermissible delegations of legislative power; that the Enabling Act complies with the State's unified investment program, as required by the State Constitution; and that the appropriations made by the Enabling Act do not constitute local or special laws forbidden by the State Constitution.

THE 1984 SERIES A BONDS

Purpose of the 1984 Series A Bonds

The proceeds from the sale of the 1984 Series A Bonds are to be used to provide funds for the Department to make the Loans to certain local government entities, political subdivisions and water users' associations within the State of Montana in order to finance the construction of various water, sewer, irrigation and dam rehabilitation projects (the "Projects"). See Appendix A, "Descriptions of the Loans and Projects Financed with the 1984 Series A Bonds" herein.

Description of the 1984 Series A Bonds

The 1984 Series A Bonds are being issued in the aggregate principal amount of \$11,000,000*, will be dated August 1, 1984, will be issued as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof, and will bear interest at the rates and mature on the dates and in the amounts set forth on the cover page hereof. Interest on the 1984 Series A Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 1984 (first payment representing four months' interest) to the persons listed as the registered holders of the 1984 Series A Bonds on the books of the Bond Registrar on the record dates, which are the May 15 or November 15 preceding each interest payment date, by check or draft mailed to such holders, by wire transfer, or by any other means that may be customary and commercially acceptable on the date of payment. Principal of the 1984 Series A Bonds is payable at the office of the State Treasurer in Helena, Montana, Paying Agent, or at the option of the holder at the principal office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, Paying Agent and Bond Registrar.

Any Bondholder may exchange any 1984 Series A Bond or Bonds for an equal aggregate principal amount of fully registered 1984 Series A Bonds of the same maturity and interest rate, in denominations of \$5,000 or any integral multiple thereof, upon surrender of such Bond or Bonds at the corporate trust office of the Bond Registrar, together with a written instrument of transfer satisfactory to the Bond Registrar.

Redemption Provisions

Sinking Fund Redemption. The 1984 Series A Bonds due December 1, 2000* will be subject to mandatory redemption through sinking fund installments on December 1, 1997 and on each December 1 thereafter to maturity. The 1984 Series A Bonds due December 1, 2005* will be subject to mandatory redemption through sinking fund installments on December 1, 2001 and on each December 1 thereafter to maturity. The redemption price will be 100% of the principal amount of 1984 Series A Bonds so to be redeemed plus interest accrued to the redemption date. Such sinking fund installments will be sufficient to redeem the principal amount of 1984 Series A Term Bonds as specified below:

1984 Series A Term Bonds Due December 1, 2000		1984 Series A Term Bonds Due December 1, 2005	
Year	Amount*	Year	Amount*
1997.....	\$520,000	2001.....	\$ 780,000
1998.....	575,000	2002.....	860,000
1999.....	635,000	2003.....	955,000
2000 (Maturity)	705,000	2004.....	1,060,000
		2005 (Maturity)	1,175,000

The amounts accumulated for each sinking fund installment may be applied by the State Treasurer, at the direction of the Board, prior to the forty-fifth day preceding the due date of such sinking fund installment to the purchase of 1984 Series A Bonds at prices not exceeding the applicable redemption price, plus accrued interest to the date of purchase. Upon any purchase or redemption of Bonds for which sinking fund installments shall have been established other than by application of sinking fund installments, an amount equal to the principal amount of the Bonds so purchased or redeemed is to be credited toward such sinking fund installments.

* Subject to change

Optional Redemption. The 1984 Series A Bonds will be subject to redemption at the option of the Board on and after December 1, 1994, either as a whole at any time or in part on any interest payment date (and by lot if less than all of a maturity is to be redeemed), at the redemption prices expressed as percentages of the principal amount set forth below, plus interest accrued to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Price</u>
December 1, 1994 to November 30, 1995.....	102%
December 1, 1995 to November 30, 1996	101
December 1, 1996 and thereafter	100

Notice of Redemption. When any 1984 Series A Bonds are to be redeemed, the Bond Registrar will notify the holders of such Bonds of such redemption by mailing a notice of redemption to the addresses of such holders as shown upon the registration books. Such notice will be made not more than sixty and not less than thirty days before the redemption date.

SECURITY AND SOURCES OF PAYMENT FOR THE 1984 SERIES A BONDS

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by Pledged Tax Revenues, the 1984 Series A Pledged Project Revenues, the amounts, if any, in the Surplus Project Revenue Account and the Debt Service Reserve Account, and the proceeds of the 1984 Series A Bonds, as defined in the Resolutions and herein. On each bond payment date the State Treasurer will pay the debt service due on the 1984 Series A Bonds by drawing upon the 1984 Series A Pledged Project Revenues in the 1984 Series A Debt Service Account, the amounts, if any, in the Surplus Project Revenue Account, the Pledged Tax Revenues in the Trust Fund Bond Account, the amounts in the Debt Service Reserve Account, and the Bond proceeds in the 1984 Series A Bond Proceeds Account, in that order. These sources of payment and security are described below.

Pledged Tax Revenues: The State levies a severance tax on coal produced in the State. See "The Coal Severance Tax" herein. The State Constitution requires fifty percent of the revenues from the coal severance tax to be deposited into the Coal Severance Tax Trust Fund. The Enabling Act and the General Resolution require the principal amount of the coal severance tax revenues dedicated to the Coal Severance Tax Trust Fund to be held in the Trust Fund Bond Account for up to six months, and pledge the amounts in the Trust Fund Bond Account (the "Pledged Tax Revenues") for payment of the debt service on the Bonds. Investment income earned on amounts in the Trust Fund Bond Account is transferred to the Trust Fund Income Account as it is received, and is not pledged for payment of the Bonds. On June 30 and December 31 of each year the Pledged Tax Revenues remaining in the Trust Fund Bond Account after payment of the debt service due on the Bonds are transferred to the Trust Fund Permanent Account. The amounts in the Trust Fund Permanent Account are not pledged for payment of the Bonds.

1984 Series A Pledged Project Revenues: The repayments of principal, interest and penalties received with respect to the Loans (the "1984 Series A Pledged Project Revenues") will be deposited as received into the 1984 Series A Debt Service Account and are pledged and available solely for payment of the 1984 Series A Bonds and any additional Bonds hereafter made payable from the 1984 Series A Debt Service Account. It is expected that the 1984 Series A Pledged Project Revenues will not be sufficient to pay all of the debt service due on the 1984 Series A Bonds, and that part of such debt service will be paid from Pledged Tax Revenues. On December 31 of each year all amounts, except for an amount not to exceed one-twelfth of the debt service due on the 1984 Series A Bonds during the next year, will be transferred from the 1984 Series A Debt Service Account to an account that is not pledged for payment of the Bonds.

Debt Service Reserve Requirement: The Resolutions require an amount of Bond proceeds and Pledged Tax Revenues equal to the maximum annual principal and interest due on all outstanding Bonds to be held in the Debt Service Reserve Account. The amounts in the Debt Service Reserve Account are pledged and held as security for all Bonds issued under the General Resolution.

Surplus Project Revenue Account: The General Resolution creates a Surplus Project Revenue Account, and permits the State by supplemental resolution to deposit therein project revenues and other revenues, assets and property which are not otherwise pledged to the payment of any series of Bonds. The amounts in the Surplus Project Revenue Account, if any, are pledged for payment of all series of Bonds. The 1984 Series A Supplemental Resolution does not require any amounts to be transferred to the Surplus Project Revenue Account.

Bond Proceeds: If on any bond payment date the 1984 Series A Pledged Project Revenues, the Pledged Tax Revenues, and the amounts in the Surplus Project Revenue Account and the Debt Service Reserve Account are insufficient to pay the debt service due on the 1984 Series A Bonds, the Bond proceeds in the 1984 Series A Bond Proceeds Account shall be used to pay such debt service. If any 1984 Series A Bond proceeds are used to pay debt service on the 1984 Series A Bonds, the next Pledged Tax Revenues deposited into the Trust Fund Bond Account will immediately be transferred to the 1984 Series A Bond Proceeds Account to replace the Bond proceeds used to pay debt service.

Funds and Accounts

All money held in connection with the 1984 Series A Bonds will be held by the State Treasurer in the following funds and accounts:

Coal Severance Tax Trust Fund: The Constitution of the State requires fifty percent of the revenues from the State's coal severance tax to be deposited into the Coal Severance Tax Trust Fund. The Enabling Act and the General Resolution create three accounts within the Coal Severance Tax Trust Fund: a Trust Fund Bond Account, a Trust Fund Permanent Account, and a Trust Fund Income Account. The principal of the coal severance tax revenues dedicated to the Coal Severance Tax Trust Fund are deposited into the Trust Fund Bond Account, and are available for payment of debt service on the Bonds until the next June 30 or December 31, when any coal severance tax revenues not used to pay debt service are transferred to the Trust Fund Permanent Account. The amounts in the Trust Fund Permanent Account and the Trust Fund Income Account are not pledged for payment of the Bonds. See "Security and Sources of Payment for the 1984 Series A Bonds — Pledged Tax Revenues" herein.

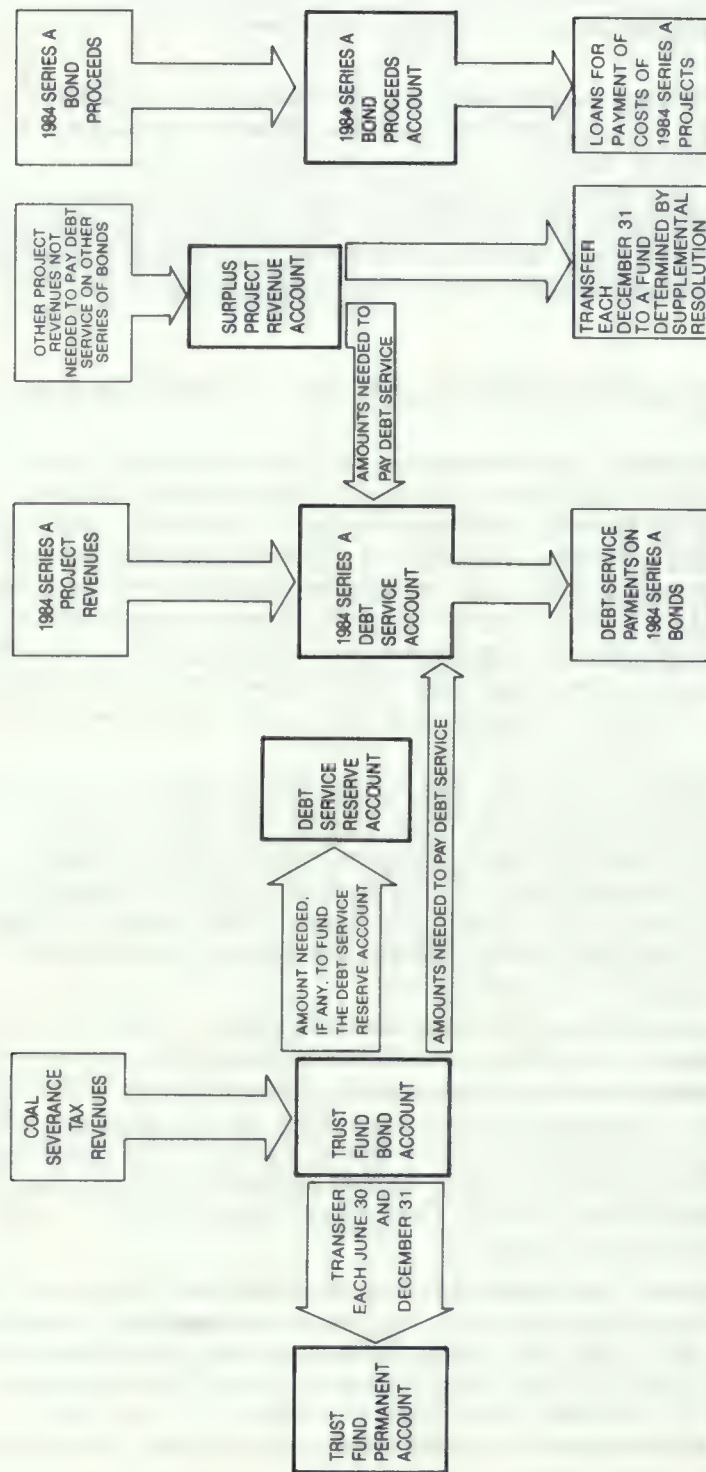
1984 Series A Bond Proceeds Account: The General Resolution requires a separate bond proceeds account to be created for each series of Bonds. The proceeds of the 1984 Series A Bonds will be held in the 1984 Series A Bond Proceeds Account until used to make the Loans described in Appendix A herein. All investment income earned on the amounts in the 1984 Series A Bond Proceeds Account will be transferred to the 1984 Series A Debt Service Account. If any 1984 Series A Bond proceeds are used to pay debt service on the 1984 Series A Bonds, then the next Pledged Tax Revenues deposited into the Trust Fund Bond Account will be used to replace the amount so used.

1984 Series A Debt Service Account: The Supplemental Resolution creates a separate debt service account for the 1984 Series A Bonds. The 1984 Series A Pledged Project Revenues and investment income earned on the 1984 Series A Bond proceeds will be deposited into the 1984 Series A Debt Service Account. Each December 31 all amounts will be transferred from the 1984 Series A Debt Service Account except for an amount not to exceed one-twelfth of the debt service due on the 1984 Series A Bonds during the next year. The amounts in the 1984 Series A Debt Service Account are pledged solely for payment of the 1984 Series A Bonds and any additional Bonds hereafter made payable therefrom. See "Security and Sources of Payment for the 1984 Series A Bonds" herein.

Debt Service Reserve Account: The General Resolution establishes a Debt Service Reserve Account for all series of Bonds, and requires an amount equal to the maximum annual principal and interest due on the outstanding Bonds to be held in the Debt Service Reserve Account. Investment income earned on 1984 Series A Bond proceeds held in the Debt Service Reserve Account will be deposited into the 1984 Series A Debt Service Account; investment income earned on Pledged Tax Revenues held in the Debt Service Reserve Account will be transferred to the Trust Fund Income Account or to such other account as may be required by law.

Surplus Project Revenue Account: When required by a supplemental resolution, amounts will be deposited into the Surplus Project Revenue Account. The amounts in the Surplus Project Revenue Account are pledged for payment of all series of Bonds.

SOURCES OF PAYMENT AND FLOW OF FUNDS



ORDER IN WHICH ACCOUNTS ARE DRAWN UPON
TO PAY DEBT SERVICE ON 1984 SERIES A BONDS:

1. 1984 SERIES A DEBT SERVICE ACCOUNT
2. SURPLUS PROJECT REVENUE ACCOUNT
3. TRUST FUND BOND ACCOUNT
4. DEBT SERVICE RESERVE ACCOUNT
5. 1984 SERIES A BOND PROCEEDS ACCOUNT

Additional Bonds

The General Resolution permits the issuance of additional Bonds. Such Bonds cannot have a lien on the Pledged Tax Revenues and the 1984 Series A Pledged Project Revenues superior to the lien of the 1984 Series A Bonds on such revenues. In the General Resolution, the Board covenants not to issue any additional Bonds unless the average amount of coal severance tax revenues deposited annually into the Trust Fund Bond Account during the three fiscal years preceding the issuance of such additional Bonds is at least twice the maximum annual debt service on such additional Bonds and all other outstanding Bonds during any future fiscal year. One or more series of Bonds may be issued and made payable from the 1984 Series A Pledged Project Revenues deposited in the 1984 Series A Debt Service Account.

Rate Covenant

The State Legislature has provided in the Enabling Act and the State has covenanted in the General Resolution to provide for the continued assessment, levy, collection and deposit into the Trust Fund Bond Account of coal severance taxes in amounts which, together with the other revenues, assets and moneys pledged for payment of the Bonds, will be sufficient to pay as due the debt service on the Bonds.

Refunding Bonds

The General Resolution permits the issuance of refunding Bonds to refund all or any portion of any one or more series of Bonds. Refunding Bonds may be authenticated and delivered only upon receipt by the Bond Registrar of, among other things, irrevocable instructions to an escrow agent to pay when due or to redeem all the Bonds to be refunded and either (i) moneys sufficient to pay the principal amount at the applicable redemption price of the Bonds to be refunded, together with accrued interest thereon to the maturity date or redemption date, or (ii) direct obligations of or obligations guaranteed by the United States of America, the principal and interest on which when due, together with any moneys deposited with the escrow agent or Paying Agent, will be sufficient to pay such principal or redemption price and accrued interest. Any such moneys and obligations are required to be held irrevocably in trust for the Bondholders by the escrow agent.

Defeasance

Payment of the Bonds may be provided for and the lien and pledge created by the Resolutions discharged by the deposit in trust with an escrow agent duly appointed by the Board pursuant to the General Resolution, or with any Paying Agent other than the State Treasurer, of moneys in an amount, or Government Obligations the principal of and interest on which when due will provide moneys which will be sufficient to pay when due the principal of, premium, if any, and interest on the Bonds at maturity or upon prior call for redemption. The General Resolution defines Government Obligations as direct general obligations of the United States of America or obligations the payment of principal of and interest on which is, in the opinion of the Attorney General of the United States, fully and unconditionally guaranteed by the United States of America.

APPLICATION OF 1984 SERIES A BOND PROCEEDS

It is estimated that the proceeds from the sale of the 1984 Series A Bonds, exclusive of accrued interest, will be applied as follows:

Project costs.....	\$ 9,854,070
Deposit to the Debt Service Reserve Account (1)	
Underwriters' discount and costs of issuance	
Principal amount of 1984 Series A Bonds	<u>\$11,000,000*</u>

- (1) The balance of the Debt Service Reserve Requirement will be funded from coal severance tax revenues transferred from the Trust Fund Bond Account to the Debt Service Reserve Account at the time of delivery of the Bonds.

* Subject to change.

DEBT SERVICE REQUIREMENTS

The following table sets forth the estimated installments of principal and interest on the 1984 Series A Bonds, assuming an average interest rate of 10¼%.

Debt Service Requirements 1984 Series A Bonds*

Fiscal Year Ending June 30	Principal	Interest	Total 1984 Series A Debt Service
1985.....	\$ —	\$ 920,300(1)	\$ 920,300
1986.....	200,000	1,097,860	1,297,860
1987.....	210,000	1,084,010	1,294,010
1988.....	225,000	1,068,335	1,293,335
1989.....	245,000	1,050,578	1,295,578
1990.....	260,000	1,030,745	1,290,745
1991.....	285,000	1,008,375	1,293,375
1992.....	305,000	983,137	1,288,137
1993.....	335,000	954,795	1,289,795
1994.....	365,000	922,930	1,287,930
1995.....	395,000	887,575	1,282,575
1996.....	435,000	848,130	1,283,130
1997.....	475,000	804,094	1,279,094
1998.....	520,000	753,637	1,273,637
1999.....	575,000	696,150	1,271,150
2000.....	635,000	632,625	1,267,625
2001.....	705,000	562,275	1,267,275
2002.....	780,000	482,850	1,262,850
2003.....	860,000	393,675	1,253,675
2004.....	955,000	294,984	1,249,984
2005.....	1,060,000	185,419	1,245,419
2006.....	1,175,000	63,891	1,238,891
Total.....	<u>\$11,000,000</u>	<u>\$16,726,370</u>	<u>\$27,726,370</u>

(1) Represents 10 months' interest.

* Subject to change.

THE COAL SEVERANCE TAX

Coal Severance Tax Rates

Since July 1, 1975, the State has imposed a severance tax on each ton of coal produced in the State. The rate at which the State's coal severance tax is imposed is determined by the heating quality of the coal and whether the coal was mined on the surface or underground. The current coal severance tax rates are summarized in the following table:

Coal Severance Tax Rates

<u>Heating Quality (BTU's per pound of coal)</u>	<u>Surface Mining</u>	<u>Underground Mining</u>
Under 7,000.....	12 cents per ton or 20% of contract sales price, whichever is greater.	5 cents per ton or 3% of contract sales price, whichever is greater.
7,000-8,000.....	22 cents per ton or 30% of contract sales price, whichever is greater.	8 cents per ton or 4% of contract sales price, whichever is greater.
8,000-9,000.....	34 cents per ton or 30% of contract sales price, whichever is greater.	10 cents per ton or 4% of contract sales price, whichever is greater.
Over 9,000.....	40 cents per ton or 30% of contract sales price, whichever is greater.	12 cents per ton or 4% of contract sales price, whichever is greater.

The State's coal severance tax is calculated on the "contract sales price" of coal produced in the State. The "contract sales price" of coal is calculated by deducting various taxes, fees, and royalties from the purchase price of that coal at the mine prior to transportation (the "F.O.B. price"). The first 20,000 tons of annual production by each producer is exempt from the coal severance tax. The following taxes and royalties are deducted from the F.O.B. price when calculating the "contract sales price":

State Taxes, including the Montana coal severance tax, the Montana resource indemnity tax and the county gross proceeds (property) tax.

Federal Taxes and Fees, including the black lung tax and the reclamation fee.

Federal, State and Indian Royalties: Under legislation enacted in 1983, when calculating the contract sales price of coal, coal producers can deduct the following amounts of royalties paid to the State, the federal government and federally recognized Indian tribes:

July 1984 - June 1985	25% of royalties in excess of 15 cents per ton
July 1985 - June 1986	50% of royalties in excess of 15 cents per ton
July 1986 - June 1987	75% of royalties in excess of 15 cents per ton
July 1987 - June 1988	100% of royalties in excess of 15 cents per ton

In calendar year 1982, the last year for which data is available, Montana coal producers paid \$9,516,623 in royalties to the federal government, \$997,587 to the State, and \$2,603,346 to Indian tribes. The amount of royalties paid by Montana coal producers is expected to increase as current federal leases which assess a royalty of 15 cents per ton expire and are replaced by leases which assess a royalty of 12.5% of the value of coal produced. The State's Office of Budget and Program Planning estimates that this legislation will permit coal producers to take deductions of approximately \$1.47 million in fiscal year 1985, \$3.40 million in fiscal year 1986, \$5.70 million in fiscal year 1987 and \$8.30 million in fiscal year 1988, with a corresponding reduction in the effective rate of the coal severance tax. The effect on coal severance tax revenues of this increase in royalty payments and royalty deductions has been reflected in the State's coal severance tax revenue projections.

Imputed Value for Processed Coal: In addition, under legislation enacted in 1983, if a coal producer improves the quality of coal by drying, cleaning or any other beneficiation process, it can calculate its coal severance tax based on the selling price of similar coal that did not require processing, rather than the actual F.O.B. price of the coal. Because the imputed value will be lower than the F.O.B. price, this adjustment will reduce the effective rate of the coal severance tax. To date no coal producer has utilized the adjustment permitted by this legislation.

Although over 99% of the coal produced in the state is taxed at 30% of "contract sales price", during 1983 the average effective rate at which the coal severance tax was imposed on the F.O.B. price of all coal produced in the State was 20.8%. The State's Department of Revenue estimates that after July 1, 1987, when the royalty deduction reaches its final level, the overall effective rate of the coal severance tax will be approximately 18.5%.

In 1981 the United States Supreme Court held in *Commonwealth Edison Co. v. State of Montana* that the State's coal severance tax and the rate at which it is imposed do not violate either the commerce or the supremacy clause of the United States Constitution. During the last few years, several bills have been introduced in Congress to limit the rate at which states can impose severance taxes, but no legislation on this subject has been enacted.

Historical Coal Severance Tax Revenues

Coal producers are required to calculate their coal severance tax for each calendar quarter based on actual production, and to pay the tax to the State within thirty days after the end of each quarter. The total revenues received by the State during the last five years from the coal severance tax and the amounts of this tax deposited into the Coal Severance Tax Trust Fund are set forth in the following table:

Historical Coal Severance Tax Revenues

<u>Fiscal Year Ended June 30</u>	<u>Average Contract Sales Price (Per Ton)</u>	<u>Production (Thousands of Tons)</u>	<u>Total Revenues (\$000)</u>	<u>Deposits to the Trust Fund (\$000)</u>
1979	\$5.435	26,319	\$42,689	\$10,627(1)
1980	7.301	34,360	75,125	23,024(1)
1981	7.857	30,089	70,415	35,208
1982	9.005	31,936	86,187	43,093
1983	9.980	27,798	80,045(2)	40,022
1984	9.868(3)	30,188(3)	82,823(2)(3)	41,412(3)

- (1) Effective January 1, 1980, the percentage of coal severance tax revenues required to be deposited into the Coal Severance Tax Trust Fund increased from 25% to 50%.
- (2) Does not include \$3,074,670 in fiscal year 1983 and \$6,331,706 in fiscal year 1984 deposited into an escrow account pending resolution of the lawsuit brought against the State by the Crow Indian Tribe. See "Litigation" herein.
- (3) Preliminary.

Projections of Coal Severance Tax Revenues

The State Office of Budget and Program Planning is responsible for preparing projections of coal severance tax revenues. Set forth below are projections of coal severance tax revenues through fiscal year 1990. The forecasts are based upon projections of the annual contract sales price per ton and the production levels during these periods. The forecast of the contract sales price per ton of Montana coal is based on the U.S. producer price index for coal as forecast by Chase Econometrics, Incorporated. Production estimates were derived through surveys of Montana coal producers. The projected total gross value of Montana coal is calculated by multiplying the projected contract sales price per ton by the projected number of tons of production. The predominant tax rate (30% of contract sales price) is then applied to estimate tax collections. The projections do not include the revenues that are expected to be held in escrow pending resolution of the case brought by the Crow Indian Tribe against the State. See "Litigation" herein.

Projected Coal Severance Tax Revenues

<u>Fiscal Year Ending June 30</u>	<u>Calendar Year Contract Sales Price (Per Ton)</u>	<u>Calendar Year Production (Thousands of Tons)</u>	<u>Fiscal Year Tax Revenues (\$000)</u>	<u>Deposits To The Trust Fund (\$000)</u>
1985(1).....	\$10.308	33,104	\$ 99,730	\$49,865
1986	10.614	34,094	103,919	51,960
1987	11.256	34,184	110,280	55,140
1988	12.247	33,932	117,742	58,871
1989	13.434	34,014	127,773	63,886
1990	14.644	34,097	140,261	70,130

(1) Reflects sales of coal by Western Energy Co. to Montana Power Co. for two new 750 MW mine-mouth plants, Colstrip Units 3 and 4.

In the preparation of these projections of future coal severance tax revenues, the State Office of Budget and Program Planning has made certain assumptions with respect to conditions, events and circumstances which may occur in the future. While the State Office of Budget and Program Planning believes these assumptions are reasonable for the purposes of making an estimate of the State's future coal severance tax revenues, the actual results may differ materially from the forecast as influenced by the conditions, events and circumstances which actually occur. In addition, the State Office of Budget and Program Planning has used and relied upon certain information provided by others. While the sources of such information are believed to be reliable, the State has not independently verified the information and offers no assurances with respect thereto.

Coverage of Debt Service by Pledged Tax and Project Revenues

The extent to which the projected Pledged Tax Revenues and Pledged Project Revenues are expected to cover the estimated debt service on the 1984 Series A Bonds through fiscal year 1990 is set forth in the following table:

Projected Pledged Tax and Project Revenues and Coverage
(\$000)

	Fiscal Years Ending June 30					
	1985	1986	1987	1988	1989	1990
Projected Pledged Tax Revenues(1)	\$49,865.0	\$51,959.5	\$55,140.0	\$58,871.0	\$63,886.5	\$70,130.5
Projected Pledged Project Revenues and Investment Income(2)	601.0	899.2	956.5	940.3	930.2	1,010.8
Total Pledged Tax and Project Revenues(3)	\$50,466.0	\$52,858.7	\$56,096.5	\$59,811.3	\$64,816.7	\$71,141.3
1984 Series A Bond Debt Service Requirements(4)*	\$ 920.3	\$ 1,297.9	\$ 1,294.0	\$ 1,293.3	\$ 1,295.6	\$ 1,290.7
Ratio of Pledged Tax and Project Revenues to 1984 Series A Bond Debt Service Requirements	54.8x	40.7x	43.4x	46.3x	50.0x	55.1x

- (1) State Office of Budget and Program Planning—See “Projections of Coal Severance Tax Revenues” herein.
- (2) State Department of Natural Resources and Conservation based upon the repayment terms established for the Loans. Investment Income is based on an assumed rate of 11%.
- (3) Does not reflect the effect of the June 30 and December 31 transfer of all funds held in the Trust Fund Bond Account to the Trust Fund Permanent Account.
- (4) Based on an assumed average interest rate of 10¾% for the 1984 Series A Bonds.

Allocation of Coal Severance Tax Revenues

Coal Severance Tax Revenues received by the State are presently allocated in the following manner:

- (1) 50% of the revenues are deposited into the Coal Severance Tax Trust Fund;
- (2) the remaining 50% of the coal severance tax revenues are applied to various purposes as follows:
 - (a) 37.5% of such revenues are deposited into a local impact and education trust fund;
 - (b) 10% of such revenues are placed in a fund for state equalization aid to public schools of the State;
 - (c) 14.5% of such revenues are deposited into various funds to benefit parks and recreation, the arts, libraries, alternative energy development, renewable resource development, water development, county land planning and conservation districts; and
 - (d) the balance (38%) of such revenues are deposited into the State's General Fund and are available for appropriation for any public purpose.

Beginning July 1, 1986, 6% of the coal severance tax revenues not deposited into the Coal Severance Tax Trust Fund will be deposited into a Highway Reconstruction Trust Fund. The percentage of revenues deposited into the Highway Reconstruction Trust Fund will increase to 12% on July 1, 1987, and be eliminated on June 30, 1993. The balance of funds after deposits into the Coal Severance Tax Trust Fund and the Highway Reconstruction Trust Fund will be allocated as reflected above.

* Subject to change.

CERTAIN FACTORS AFFECTING THE COAL INDUSTRY GENERALLY

The coal industry in the United States is heavily dependent upon the demand for electric power with over 70% of U.S. coal production and 80% of U.S. coal consumption related to electric power generation. The electric utility industry in general is currently experiencing problems in a number of areas including, among others, the effects of inflation upon the costs of operations and upon construction expenditures, availability and high cost of capital, availability and increased cost of fuel for the generation of electric energy, fluctuating rates of load growth, complicity with environmental and governmental regulations, licensing and other delays affecting the construction of new facilities and the effects of conservation on the use of electric energy. In addition, there currently exists a general overabundance of economically mineable coal and mining capacity. The State is unable to predict the extent to which its coal severance tax revenues will be affected by such factors.

MONTANA COAL PRODUCTION

General

Montana coal production is generally characterized by relatively new and modern mines, predominately surface mines, which produce low sulphur coal. Surface mining operations can accommodate more rapid production increases and are also characterized by lower labor requirements than subsurface mining operations. In 1981, Montana had total identified resources of 176.8 billion tons of sub-bituminous coal and 112.5 billion tons of lignite, which comprised 36% and 24% respectively of the United States totals. Of the identified resources, approximately 50 billion tons are considered to be coal suitable for surface mining. Approximately one-half of the coal has less than 0.5% sulphur. Low sulphur coal is preferred to high sulphur coal in meeting the current emission standards established by the United States Environmental Protection Agency.

Coal production in the State increased from 7.1 million tons in 1971 to 33.4 million tons in 1981 and amounted to an estimated 28.6 million tons in 1983. During the past ten years both the tonnage and value of coal produced in Montana has generally increased more rapidly than the tonnage and value of coal produced in the United States as a whole. Growth in Montana coal production is principally attributable to low cost strip mining and the availability of low sulphur coal suitable for consumption by the electric power industry. The following table indicates the tonnage and value of coal produced annually from 1973 to 1983 in Montana and the United States, and the percentage of Montana production in relation to U.S. production.

**Coal Production
Montana and the United States**

Calendar Year	Tonnage (Millions)			Value (Million)		
	Montana (1)	United States (2)	Montana Percentage	Montana (1)	United States (2)	Montana Percentage
1973.....	10.7	598.6	1.79%	\$ 30.2	\$ 5,106.0	0.59%
1974.....	14.1	610.0	2.31	54.2	9,608.0	0.56
1975.....	22.1	654.6	3.38	110.1	12,588.0	0.87
1976.....	26.3	684.9	3.84	150.2	13,308.0	1.13
1977.....	27.2	697.2	3.90	158.7	13,819.0	1.15
1978.....	26.6	670.2	3.97	181.5	14,597.0	1.24
1979.....	32.5	781.1	4.16	334.7	18,356.0	1.82
1980.....	29.8	835.4	3.57	331.4	21,720.0	1.53
1981.....	33.4	815.2	4.10	390.4	21,522.0	1.81
1982.....	26.8	838.1	3.20	363.3	22,752.0	1.60
1983.....	28.6(3)	784.9(3)	3.64	363.6(3)	21,481.1(3)	1.69

(1) State Department of Revenue.

(2) United States Department of Energy, Energy Information Administration.

(3) Preliminary.

Long Term Production Contracts

Over 90% of Montana coal production is produced under long term contracts between coal producers and electric utility purchasers. Long term contracts for sale of coal produced in the State of Montana are summarized in the following table:

Long Term Coal Contracts(1)

<u>Producer</u>	<u>Purchaser</u>	<u>Annual Contract Tonnage (Tons/Year)</u>	<u>Contract End Date</u>
Peabody Coal Company.....	Minnesota Power & Light Co.	4,200,000	12/31/93
Decker Coal Company	Detroit Edison	4,100,000	3/31/01
	Commonwealth Edison Co.	4,850,000	12/31/97
	Lower Colorado River Authority(2)	3,300,000	12/31/03
	Upper Peninsula Generating Co.	570,000	12/31/87
Westmoreland Resouces, Inc.	Wisconsin Power and Light Co.	300,000	12/31/93
Western Energy Co.	Lake Superior District Power Co.	50,000	12/31/89
	Montana Power Co.	500,000	12/31/89
	Montana Power Co.	1,500,000	12/31/09
	Montana Power Co.	5,000,000	12/31/19
	Northern States Power Co.	2,500,000	12/31/93
	Northern States Power Co.	4,000,000	12/31/95
	Wisconsin Power and Light Co.	1,700,000	12/31/94

- (1) Montana Office of Budget and Program Planning based upon review of Federal Energy Regulatory Commission data.
- (2) Montana Office of Budget and Program Planning based upon producer and utility announcements.

Annual contract tonnage is the amount of coal a producer commits to supply a purchaser at a contract price. Contract tonnage for production and actual coal production levels differ in that the contracts permit electric utilities, in response to weak demand for electricity, to exercise minimum tonnage provisions in their contracts. Generally the actual annual production tonnage is lower than the contracted tonnage. In addition to the contracts listed above, Montana producers sell quantities of coal on a spot market basis and in small contracted amounts. Other purchasers of Montana coal in recent years include Houston Power and Light, Central Illinois Light Company, Marquette Board of Light and Power (Michigan), United Power Agency (Minnesota), Minnesota Department of Public Utility, Willmar Municipal Utility (Minnesota), Montana-Dakota Utilities, Dairyland Cooperative (Wisconsin), and Madison Gas and Electric (Wisconsin).

Long term contracts for coal production in Montana provide for adjustments in the purchase price of coal based upon various formulas that are negotiated between the producer and the electric utility/purchaser. Generally the purchase price adjustment formula is related to increases and decreases in the consumer price index, the wholesale price index for construction machinery and equipment, and average

hourly wage rates. Therefore, even though the tonnage of coal produced under a contract may not vary significantly from year to year, the price of coal purchased under the contracts is adjusted under a formula to increase or decrease in relation to the relative cost of production of the coal from year to year.

Rail Contracts for Coal Transport

Under the Staggers Rail Act enacted by Congress in 1980, railroads are no longer prohibited from entering into long term coal hauling agreements with coal burning utilities. The new coal hauling contracts offer the utilities a greater degree of stability regarding coal transportation costs, and also permit utilities to develop competition for coal transportation costs among railroads. The Montana coal producers are presently only served by Burlington Northern Railroad. Burlington Northern has negotiated contracts with numerous electric utilities in the Montana-Wyoming coal market area, and this trend for long term transportation contracts is expected to continue. The durations of the new transportation contracts are co-terminous with existing coal production contracts.

Coal Production and Land Status

The Department of State Lands estimates that coal reserves in Montana are owned 65% by the federal government, 18% by private companies, 12% by Indian tribes, and 5% by the State of Montana. Federal ownership is particularly predominant in the Powder River Basin, a portion of which is located in Montana. The Powder River Basin is the most important coal region in the western states and contains 40% of the surface mineable coal resources in the entire United States. Over 75% of the coal in the portion of the Powder River Basin region within Montana's boundaries is controlled by the federal government. State coal and coal owned by the Indian tribes account for less than 10% of the reserves in the Montana region of the Powder River Basin.

The major private owner of coal in Montana is the Burlington Northern Railroad, which is the nation's largest private coal owner with 14 billion tons of reserves. Like other land grant railroads, the Burlington Northern received land and mineral rights from the federal government during the construction of its rail lines. The land grants are in alternate square mile tracts "checkerboarded" along the railroad route and can only be easily developed if adjacent lands are acquired or leased.

Approximately one third of Montana coal production occurs on federal leased lands, with the remaining production located on private and state-owned lands. The Crow Indian Tribe has filed suit against the State of Montana to prevent the imposition of coal severance taxes by the State of Montana on coal produced on Crow Reservation lands or on coal which is owned by the Crow Indian Tribe which is produced on off-reservation lands. See "Litigation" herein. Currently there is no mining of coal on the Crow Indian Reservation, but some mines operated by Westmoreland Resources Inc. are producing coal under a lease with the Crow Indian Tribe on lands that are not within reservation boundaries. None of the other coal production in the State is subject to the current litigation. Westmoreland Resources Inc. production subject to the current litigation was 1.35 million tons in fiscal year 1983, which represented approximately 4.9% of the overall coal production in the State. It is not possible to determine at this time what the ultimate impact will be on the source of future coal production in the State if the Crow Indian Tribe is successful in its litigation efforts. The amount of coal reserves on the reservation and the amount of coal owned by the Crow Indian Tribe in off-reservation lands (the "Crow ceded area") are not precisely determined. However, if the Crow Indian Tribe is successful in its assertion that the marketability of coal on reservation lands is dependent on the absence or presence of the State's coal severance tax, then future production may shift from off-reservation sources to on-reservation sources.

Electric Utility Industry Demand for Coal

Virtually all of Montana's coal is consumed by electric utilities. When a utility makes a decision to purchase coal from a specific mine, it usually constructs generation facilities or modifies existing boilers and installs pollution control equipment to burn the coal specifically from that mine. It is often difficult and costly for an electric utility to switch coal sources because its boilers and pollution control equipment are designed according to the specific qualities and heat content of coal from a particular mine. As a result, coal production contracts are generally long-term and often contain options for extension for the time period the power generation plant is retained in service.

The market area for Montana coal supplied to electric utilities is principally in the states of Montana, Michigan, Minnesota, and Wisconsin, and a portion of the State of Iowa. These states are served by Burlington Northern Railroad.

BOARD OF EXAMINERS

Under the Enabling Act, the Board of Examiners is authorized to issue Coal Severance Tax Bonds to finance the cost of water development projects and activities. The Board of Examiners consists of the Governor, the Secretary of State and the Attorney General.

MONTANA BOARD OF NATURAL RESOURCES AND CONSERVATION

The Board of Natural Resources and Conservation is composed of seven members who are appointed by the Governor, subject to confirmation by the State Senate, to four-year terms. The members are informed and experienced in the subjects of natural resources and conservation. The current members of the Board are as follows:

<u>Member</u>	<u>Occupation</u>	<u>Term Expires</u>
Gordon G. Holte, Chairman	Conservationist and corporation manager	1/1/87
Charles L. Hash, Vice Chairman.....	Attorney	1/7/85
Ann Mary Dussault.....	Missoula County commissioner and former state legislator	1/1/87
Land M. Lindbergh	Rancher and former member of the Fish and Game Commission	1/1/87
William A. Shields	President of the College of Great Falls	1/1/87
Richard H. Spaulding.....	Manager of the Billings office of a national brokerage firm	1/7/85
Cecil Weeding.....	Rancher and former state legislator	1/7/85

The principal responsibilities of the Board of Natural Resources and Conservation are to adopt administrative rules, act on proposed reservations of water, make decisions under the Montana Major Facility Siting Act, adopt flood plain delininations, and oversee the financing of state water projects.

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Responsibilities and Organization

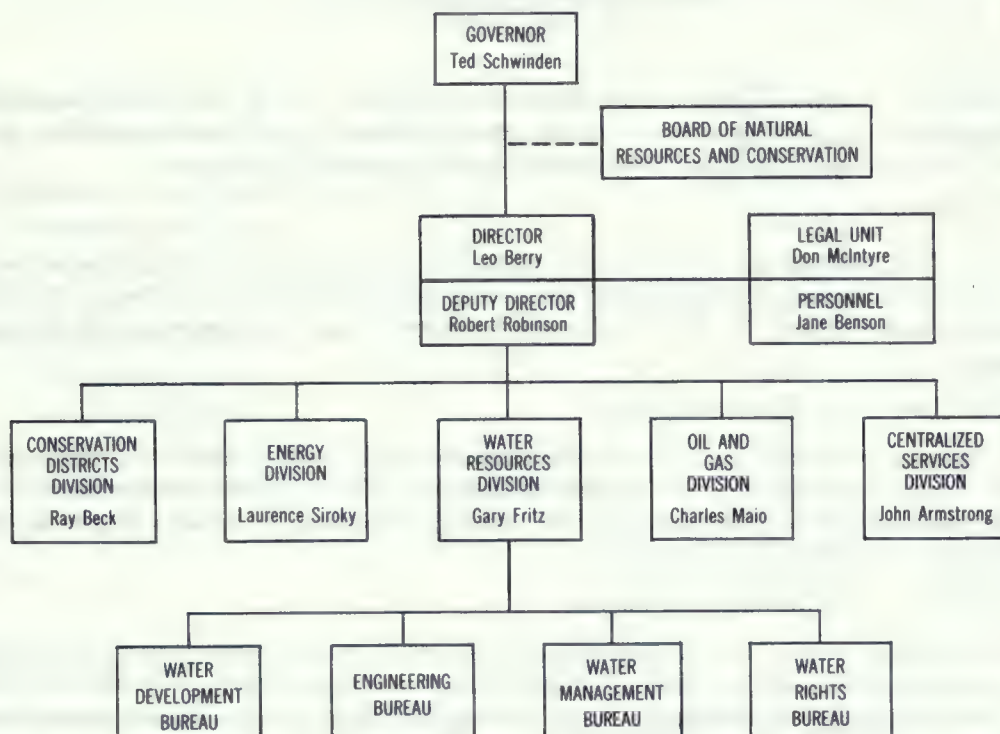
The Department was established by the State Legislature in 1971 to replace and carry on the duties of the State Water Board. The Department's principal duties are (i) planning for and management of the State's water resources; (ii) administration, filing, recording, and enforcement of the State's water rights; (iii) administration of the water development financing program under which the 1984 Series A Bonds are being issued; (iv) administration and maintenance of State owned water projects; (v) planning and implementation of energy conservation programs; (vi) enforcement of the State's Major Facility Siting Act and Environmental Protection Act; (vii) provision of coordination, funding and administrative assistance to the State's 58 conservation districts; (viii) regulation of the drilling, production and plugging of oil and gas wells for the purpose of preventing waste; and (ix) monitoring collection of the State's oil and gas conservation tax.

The Department is administered by a Director who is appointed by and directly responsible to the Governor. The Director has authority to set policies regarding the administration of the Department's programs and projects and the administration of the State's natural resources.

The Department's operating budget is reviewed by the Governor's office, and funds for this budget must be appropriated by the Legislature. In fiscal year 1983 the Department's total budget was \$13,820,225, of which \$220,217 was for capital improvements and \$672,413 was federal funds. For more information regarding the State's budget process, see "State of Montana" in Appendix B to this Official Statement.

As of January 1, 1984, the Department had a total of 232 employees, with 166 located in the Helena headquarters offices and 66 located in nine field offices in larger cities around the State. The Department's headquarters are located at 32 South Ewing, Helena, Montana 59620, telephone (406) 444-6699.

ORGANIZATION



The duties of the Water Resources Division and the two of its four bureaus that are principally involved in the financing of the water development program are as follows:

Water Resources Division administers Montana's water rights, prepares the State water plan, oversees all State-owned water projects, participates in floodplain management, carries out river basin studies, administers weather modification licensing and permitting, inspects dams for safety, provides technical assistance, and funds projects which develop water and other renewable resources. Four bureaus serve the division: water rights, engineering, water management, and water development.

Water Development Bureau has nine staff members in two sections. One section administers a loan and grant program that funds water development projects and water-related, non-project activities. This program includes grants and loans to private and public entities and can fund a wide variety of projects such as irrigation, municipal water and sewer, hydropower, and erosion control projects. It also provides funding and technical assistance for activities such as improvement of timber stands and agricultural loans under the Renewable Resources Development Program. The project development section provides technical assistance and conducts feasibility and technical studies. The bureau also assists 14 Yellowstone Basin conservation districts in developing their reserved water, and promotes the beneficial use of water and other renewable resources in the State.

Engineering Bureau has 16 staff members who manage 38 dams and irrigation projects owned by the State. They investigate possible addition of generating capacity to some dams, make safety inspections of nonfederal dams, offer professional services to state water users' associations and to other water-related programs, assist federal agencies in determining potential flood boundaries for all water courses and drainages, assist local governments in regulating floodprone lands and waters to prevent or alleviate threats to life and property, and provide information to help those living in floodprone areas to select flood insurance.

Personnel

Information concerning the primary administrative personnel of the Department who are involved in financing the water development program is set forth below.

Director

Leo Berry was appointed Director of the Department in 1981. Prior to that he was Commissioner of State Lands for five years and Supervisor of Legal Affairs and Staff for the Department of State Lands for three years. Director Berry received a law degree from the University of Montana.

Deputy Director

Robert J. Robinson was appointed Deputy Director of the Department in 1982. Prior to that he was Administrator of the Energy Division for one year and a fiscal analyst with the Office of the Legislative Fiscal Analyst for seven years. Mr. Robinson received a Masters Degree in Economics from the University of Missouri.

Administrator, Water Resources Division

Gary Fritz has served two years as an environmental planner, three as chief of the Planning Bureau and five as Administrator of the Water Resources Division. Prior to joining the Department he was a hydrologist for the Bureau of Reclamation. He received a Bachelor of Science degree in watershed management from Colorado State University.

Bureau Chief, Water Development Bureau

Caralee Cheney has been with the Department for five years, including two years as a water resources planner, two years as the Loan and Grant Section Chief, and one year as Chief of the Water Development Bureau. Prior to joining the Department she was a research biologist focusing on water quality impacts of resource development. She holds a doctorate in the study of fresh water systems from Wayne State University.

Bureau Chief, Engineering Bureau

Richard Bondy joined the Department in 1971 as a project engineer, and has been Chief of the Engineering Bureau for ten years. He has a Bachelor of Science degree in civil engineering from the University of Washington.

THE WATER DEVELOPMENT PROGRAM

General

The State has long recognized the importance of water to its citizens and economy. Recent legislatures have enacted legislation that (i) requires the development of a plan for the conservation, use and development of the State's water resources, (ii) creates programs to finance the development of the State's water resources, (iii) requires a general adjudication of all water rights in existence in the State as of 1973, (iv) creates a permit system for appropriations of water made after 1973, (v) establishes systems for administering and regulating water use in adjudicated watersheds, and (vi) creates a water reservation system that allows certain kinds of water users to reserve water that they expect to need in the future.

The State's water development financing program is administered by the Department's Water Development Bureau (the "Bureau"), which is part of the Department's Water Resources Division. The Bureau's technical staff reviews projects, enters into contractual agreements with project sponsors for the receipt of loan and grant funds, and monitors the implementation of the projects and the disbursement of funds. The Bureau is also responsible for collecting repayments from project sponsors during the term of the loans.

The Legislature has authorized the issuance of Coal Severance Tax Bonds to finance the following water development projects:

Coal Severance Tax Bonds Authorized By The Legislature

<u>Project</u>	<u>Total Coal Severance Tax Bonds Authorized</u>	<u>Projects Funded With 1984 Series A Bonds</u>
Hydroelectric Power Development		
Painted Rocks Dam	\$12,900,000	
Broadwater Dam.....	28,600,000	
Cooney Dam	3,850,000	
Dam Rehabilitation Projects		
Martinsdale Dam	257,000	\$ 250,000
Yellow Water Dam	92,000	
Cottonwood Dam.....	201,000	
Tongue River Dam	10,000,000	
Loans to 21 Local Government Entities	17,044,735	10,750,000*
Total	<u>\$72,944,735</u>	<u>\$11,000,000*</u>

* Subject to change.

The projects financed with the proceeds of the 1984 Series A Bonds are described in Appendix A to this Official Statement. Future legislatures are expected to authorize the issuance of additional amounts of Bonds.

The State does not expect to issue all of the Bonds that have been authorized by the legislature. Some of the projects may not require the full amount of financing that has been authorized, and some of the local government entities may obtain other sources of financing. In addition, Bonds cannot be issued to finance a hydroelectric project unless the State's Board of Natural Resources and Conservation determines that the project is economically feasible.

The State estimates that it will issue approximately \$10 million of Bonds per year during the next five years.

LITIGATION

There is no litigation pending or, to the knowledge of the State or the Board, threatened in any court (either state or Federal) restraining or enjoining the issuance or delivery of the 1984 Series A Bonds, or questioning (i) the proceedings under which the 1984 Series A Bonds are to be issued, (ii) the validity of the 1984 Series A Bonds, or (iii) the pledge by the State of the moneys pledged under the Resolutions for payment of the 1984 Series A Bonds.

The Crow Indian Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance tax and gross proceeds tax are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip," which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined, and the State has contested the Tribe's claim of ownership of substantial coal reserves in the Crow ceded area. The taxes are alleged to be invalid under a variety of theories, of which the most prominent are that the State taxes conflict with federal policy by preventing the marketing of Crow coal and infringe tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes are invalid, the Tribe seeks restitution from the Coal Severance Tax Trust Fund of an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc., the only company currently mining coal claimed by the Tribe, together with the interest which has accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid. The Tribe has calculated this sum to be \$92.9 million dollars.

In January 1983, the court ordered Westmoreland's severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to coal mined on the "ceded strip" since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

If the Crow Tribe is successful in its claim for restitution, State law requires the legislature to appropriate sufficient money to pay the judgment. However, the lien on Pledged Tax Revenues and the 1984 Series A Pledged Project Revenues granted to the Bondholders in the General Resolution would have priority over any subsequent appropriation made by the legislature to pay a judgment to the Crow Tribe. A judgment in favor of the Tribe could, however, affect the 1984 Series A Bonds by preventing the State from collecting the severance tax with respect to coal mined on the reservation, in the Crow ceded area, or both, which could reduce future coal severance tax receipts, and which may encourage production to shift from off-reservation sources to on-reservation sources. The extent to which a judgment in favor of the Tribe would reduce coal severance tax revenues cannot be estimated precisely.

The case was tried in January, 1984, but a decision is not expected until late 1984, and further appeals are likely regardless of the trial court's decision. The State believes that its defenses are meritorious, but the ultimate outcome of the case cannot be predicted with certainty.

FINANCIAL STATEMENTS

Financial statements of the State for the fiscal year ended June 30, 1983 and the review report thereon of the Legislative Auditor are included in Appendix C to this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all, if any, of the 1984 Series A Bonds from the State at an aggregate discount of \$ from the initial public offering prices set forth on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 1984 Series A Bonds to dealers and others (including unit investment trusts and other affiliated portfolios of certain Underwriters) at prices lower than such initial public offering prices.

LEGAL INVESTMENT

The Act provides that the 1984 Series A Bonds are legal investments for any person or board in the State charged with investment of public funds, and are acceptable as security for any deposit of public money in the State.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the 1984 Series A Bonds is exempt from federal income taxes. Furthermore, in the opinion of Bond Counsel, under existing Montana laws, interest on the 1984 Series A Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

CERTAIN LEGAL MATTERS

Legal matters related to the authorization, issuance and delivery of the 1984 Series A Bonds are subject to the approval of Oitzinger & Mullendore, Helena, Montana, Bond Counsel. The opinion of Bond Counsel will be printed on the 1984 Series A Bonds in substantially the form included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Underwriters by their Counsel, Dorsey & Whitney, Minneapolis, Minnesota.

This Official Statement has been duly authorized and approved by the Governor, Secretary of State and Attorney General, as members of the Board, and by the Department.

TED SCHWINDEN, *Governor*

JIM WALTERMIRE, *Secretary of State*

MIKE GREELY, *Attorney General*

(SEAL)

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

By _____
Director

Attest:

By _____

DESCRIPTIONS OF THE LOANS AND PROJECTS FINANCED WITH THE 1984 SERIES A BONDS

The proceeds of the 1984 Series A Bonds will be used to make loans to certain entities to finance the water projects described in this appendix. The interest rates of the loans were set by the legislature on the basis of financial need. The term of the loans will not exceed the useful life of the project or 40 years, whichever is less. The project sponsors will make debt service payments semi-annually, except in the case of the four irrigation projects and one rural water project, where payments will be made annually.

Belgrade is a town of 2,336 people in south-central Montana. Its water system is inadequate to meet demand, and water quality is threatened by deteriorated lines and low pressures. The Department will finance improvements through purchase of a \$940,000 water system revenue bond which will carry an interest rate of 7% for 5 years, and thereafter the interest rate at which the 1984 Series A Bonds are sold.

Big Fork is an unincorporated community on Flathead Lake in northwestern Montana. The Environmental Protection Agency has required the community to construct a central sewage collection system and treatment facility. The Department will help finance 25% of project costs through purchase of a \$250,000 revenue bond issued by a newly formed county water and sewer district which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold.

The Bitterroot Irrigation District irrigates approximately 16,000 acres in southwestern Montana. The district's Three Mile Irrigation Project will convert 3,300 acres from pumped sprinkler to gravity flow systems to reduce electricity and maintenance costs. The Department will finance the project through purchase of a \$1,180,000 bond which will carry an interest rate of 3% for the term of the bond. The district will levy assessments on the property benefited by the improvements to obtain funds with which to repay the bond.

Columbia Falls is a town of 3,112 people in northwestern Montana. The Department will finance the improvement of several deteriorated water transmission and sewage collection lines in the town through purchase of a \$200,000 water system revenue bond which will carry a 7% interest rate for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

Conrad is a town of 3,074 people located in central Montana. The 10,000 foot transmission line between the town's water source and its distribution system is severely deteriorated. The Department will finance improvements through purchase of a \$250,000 water system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate of the 1984 Series A Bonds.

Culbertson is a town of 887 people in northeastern Montana. The town has been directed by the State's Department of Health and Environmental Sciences to bring its water system into compliance with the State's Safe Drinking Water Act. The Department will finance the required improvements through purchase of a \$704,000 water system revenue bond which will carry an interest rate of 5% for the term of the bond.

The East Bench Irrigation District irrigates approximately 21,800 acres in southeastern Montana. This project will convert 6,000 acres from pumped sprinkler systems to gravity flow systems to reduce electricity and maintenance costs. The Department will finance the project through purchase of a \$1,250,000 bond which will carry an interest rate of 3% for the term of the bond. The district will levy assessments on the property benefited by the improvements to obtain funds with which to repay the bond.

Ennis is a town of 660 people in southern Montana. The Environmental Protection Agency has mandated major reconstruction of the town's sewage treatment facility and collection system. The Department will finance 25% of the project cost through purchase of a \$180,000 sewer system revenue bond. The bond will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

The Geraldine County Water District is located in Choteau County in north-central Montana. District users now haul water because of inadequate and poor quality well water. The Department will finance construction of a central water system through purchase of a \$1,733,200 bond which will carry an interest rate of 6.5% for the term of the bond. The district will levy assessments on property in the district to obtain funds with which to repay the bond.

Libby is a town of 2,748 people located in northwestern Montana. The Environmental Protection Agency has mandated reconstruction of the town's sewage treatment system. The Department will finance 25% of the project through purchase of a \$590,500 sewer system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

The Martinsdale Project, which is part of the state-owned Upper Musselshell Project, is an offstream storage reservoir in central Montana supplying water to irrigators along the Musselshell River. Improvements to be financed with proceeds of the 1984 Series A Bonds include replacing the spillway and improving the stability of the main dam containing the reservoir. The \$250,000 cost of the improvements, with interest at the rate at which the 1984 Series A Bonds are sold, will be repaid by the irrigators who utilize the storage facility through a water user fee.

The Pondera Conservation District in central Montana includes an area served by the Pondera County Canal and Reservoir Company, which irrigates approximately 42,000 acres and provides water for several communities. The deteriorated condition of the water system is severely affecting farm production. The Department will finance district participation in the rehabilitation project through purchase of a \$555,000 bond from the district which will carry an interest rate of 6%. The district will use the proceeds of its bond to purchase a note secured by a mortgage in real property from the Canal Company. The bond issued by the district will be repaid with the note repayments received from the Canal Company.

The Power-Teton Water and Sewer District is located in west-central Montana. The Environmental Protection Agency has mandated construction of a central sewage collection system and treatment facility by the district. The Department will finance 25% of the costs of the project through purchase of a \$121,370 bond which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold. The district will levy assessments on the property in the district to obtain funds with which to repay the bond.

The Sage Creek Water District is located in Liberty and Hill Counties in north-central Montana. Members now haul water from up to 40 miles away. The Department will finance construction of a central system by purchasing a \$623,000 bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold. The district will levy assessments on the property in the district to obtain funds with which to repay the bond.

Shelby is a town of 3,142 people located in central Montana. The town has a severely deteriorated sewer system. The Environmental Protection Agency has mandated reconstruction of the system. The Department will finance the required improvements through purchase of a \$592,000 sewer system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold.

The Town of Three Forks is a town of 1,247 people located in south-central Montana. The town has been directed by the State's Department of Health and Environmental Sciences to bring its water system into compliance with the State's Safe Drinking Water Act. The Department will finance the required improvements by purchasing a \$435,000 water system revenue bond from the town. The bond will bear an interest rate of 7% for 5 years, and thereafter the interest rate at which the 1984 Series A Bonds are sold.

STATE OF MONTANA

General Information

The territory encompassed by the State of Montana first became a part of the United States as a result of the Louisiana Purchase of 1803. Montana was organized as a separate territory in 1864 and was admitted as a state in 1889.

Montana is the fourth largest state in the United States, averaging 550 miles from east to west and 275 miles from north to south. It shares an international boundary with Canada and shares borders with North and South Dakota, Wyoming and Idaho. The Rocky Mountains extend north and south through the western part of the State. The eastern two-thirds of Montana consists of plains broken by occasional mountain ranges. Lumbering and recreation are major sources of income in western Montana, while agriculture is the chief source of income in eastern Montana. Mineral extraction, oil exploration and government operations are important economic factors throughout the State.

Montana is sparsely populated with a population density in 1983 of 5.6 persons per square mile compared to 66.1 persons per square mile for the United States. Montana ranked 44th in population in 1983.

Population

The following table presents population statistics for Montana, the Rocky Mountain Region and the United States.

Population Data (1)

Montana			Rocky Mountain Region(2)		United States	
	Population	% Increase Over Preceding Period	Population	% Increase Over Preceding Period	Population	% Increase Over Preceding Period
1950.....	591,000	5.7%	3,484,000	15.8%	151,326,000	14.5%
1960.....	675,000	14.2	4,317,000	23.9	179,323,000	18.5
1970.....	694,000	2.8	5,006,000	16.0	203,212,000	13.3
1980.....	787,000	13.4	6,551,000	30.9	226,505,000	11.5
1983(3).....	817,000	3.8	7,078,000	8.0	233,981,000	3.3

(1) Source: United States Department of Commerce, Bureau of the Census.

(2) Includes Colorado, Idaho, Montana, Utah and Wyoming.

(3) Preliminary.

Personal Income

From 1974 to 1983, personal income increased 122% in Montana and 138% nationally. Personal income in Montana during calendar year 1983 was \$8,165 million (preliminary estimate). The State's per capita income for 1983 was \$9,994 as compared with the Rocky Mountain regional figure of \$10,585 and with the United States figure of \$11,675.

The following table summarizes personal and per capita income statistics for the State, the Rocky Mountain Region and the United States.

TOTAL PERSONAL INCOME (\$MILLIONS)(1)

	Montana		Rocky Mountain Region		United States	
	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1974.....	\$3,670		\$28,817		\$1,147,257	
1975.....	4,019	9.5%	31,714	10.0%	1,248,631	8.8%
1976.....	4,216	4.9	35,062	10.6	1,374,189	10.0
1977.....	4,585	8.7	39,353	12.2	1,522,766	10.8
1978.....	5,425	18.3	45,606	15.9	1,709,616	12.3
1979.....	6,024	11.0	52,429	14.9	1,930,782	12.9
1980.....	6,822	13.2	59,991	14.4	2,160,629	11.9
1981.....	7,358	7.9	67,694	12.8	2,426,901	12.3
1982.....	7,677	4.3	73,785	9.0	2,571,517	6.0
1983(2).....	8,165	6.4	77,670	5.3	2,731,791	6.2
Average Annual Rate of Growth.		<u>9.4%</u>		<u>11.7%</u>		<u>10.1%</u>

(1) Source: United States Department of Commerce, Bureau of Economic Analysis

(2) Preliminary.

The following table shows the rates of unemployment in Montana and the United States during the period 1974-1984.

Unemployment Rates for Total Civilian Labor Force(1)

	Average Seasonally Adjusted Unemployment Rates	
	Montana	United States
1974	5.2	5.6
1975	6.4	8.5
1976	6.1	7.7
1977	6.4	7.0
1978	6.0	6.0
1979	5.1	5.8
1980	6.0	7.1
1981	6.9	7.6
1982	8.6	9.7
1983	8.8	9.6
1984 January.....	8.8	8.0
February.....	8.1	7.8
March	8.6	7.8
April	8.7	7.8
May	7.3(2)	7.5

(1) Source: United States Department of Labor and Montana Department of Labor and Industry, Research and Analysis Bureau.

(2) Preliminary.

Employment

Employment in the State grew rather modestly during the 1960's; about 19,000 jobs were created over the entire decade. In contrast, employment for the 1970-82 period increased by about 95,000 jobs. Almost all of the increase occurred in wholesale-retail trade and other industries of a service nature, and in this respect the growth was consistent with the national pattern. In 1983, 19.0% of all workers were federal, state or local government employees. Data concerning employment in Montana by major categories are shown in the following table.

Non-farm Employment in Montana (1) (thousands of persons)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Manufacturing:				
Lumber and Wood Products	9.2	8.8	7.2	8.0
Primary Metals	2.6	2.0	1.4	1.2
Other Durable Goods	3.4	3.4	3.1	2.8
Food & Kindred Products	4.0	3.8	3.7	3.7
Printing & Publishing.....	2.4	2.3	2.3	2.3
Petroleum & Coal Products	1.0	1.1	1.1	1.0
Other Nondurable Goods	1.7	1.8	1.9	1.9
Total Manufacturing	24.1	23.2	20.7	20.9
Mining:				
Metal.....	1.9	2.3	1.7	1.3
Coal.....	2.2	2.3	2.2	2.1
Oil & Gas	4.7	6.9	5.5	3.6
Total Mining	8.8	11.5	9.4	7.0
Contract Construction.....	14.5	13.3	13.4	12.8
Transportation, Communication & Utilities	22.4	22.6	22.0	20.0
Trade	72.3	72.9	71.9	70.7
Finance, Insurance & Real Estate	12.9	12.9	12.8	13.0
Services.....	55.1	56.1	56.3	57.3
Federal Government	13.8	13.6	13.1	12.5
State & Local Government.....	56.4	55.7	54.3	55.7
Total Non-farm Wage & Salary Jobs.....	280.3	281.8	273.9	269.9

(1) Source: Montana Department of Labor and Industry, Research and Analysis Bureau.

GOVERNMENTAL ORGANIZATION AND SERVICES

The Constitution of Montana provides that the power of State government be divided among three distinct branches—the legislative, the executive and the judicial.

Legislative Branch

Legislative power in Montana is vested in the legislature, which is comprised of a senate and a house of representatives. The people reserve to themselves the powers of initiative and referendum. The people may enact laws by initiative on all matters except appropriations of money and local or special laws, and may approve or reject by referendum any act of the legislature except an appropriation of money. The senate consists of 50 members, each representing a single house district.

Members of the legislature are elected biennially in even numbered years at the general election in November and take office in January of the next year. Senate terms are for four years and house terms for two years. One-half the senate must stand for election every two years. One-half the senate has served four or more terms in the legislature. Almost three-quarters of the house has served at least two terms in office.

Regular sessions of the legislature are held each odd-numbered year for a period not to exceed 90 days. Any legislature may increase the limit on the length of any subsequent session. The legislature may be convened in special sessions by the governor or upon the written request of a majority of the members.

There are five legislative support offices which have over 149 full-time employees. The Legislative Auditor and the Legislative Fiscal Analyst are the principal offices.

Office of the Legislative Auditor. The Legislative Auditor is responsible for auditing the financial affairs and transactions of all State agencies and departments. In addition, the Legislative Auditor assists the legislature by gathering and analyzing information relating to the fiscal affairs of State government. The Legislative Auditor works under the supervision of the bipartisan legislative audit committee, the members of which are divided equally between the senate and the house.

Office of the Legislative Fiscal Analyst. The Legislative Fiscal Analyst analyzes the executive budget and assists the legislature in preparation of the State's budget and appropriation bills. The office also monitors agency operations throughout the biennium and reviews executive agency actions that have a fiscal impact. The Legislative Fiscal Analyst works under the supervision of the bipartisan legislative finance committee, the members of which are divided equally between the senate and the house.

Executive Branch

The Montana Constitution establishes six elective offices within the executive branch. These offices are Governor, Lieutenant Governor, Attorney General, State Auditor, Secretary of State, and Superintendent of Public Instruction. Terms of office are four years with the next election to be held on November 6, 1984, for terms of office commencing January 1, 1985.

The Governor is the chief executive officer of Montana government. The Governor has the constitutional responsibility to see that the laws are faithfully executed, to advise the legislature as to the status of government, to prepare an executive budget and to recommend to the legislature such measures as he deems advisable. The Governor has general and amendatory veto powers. A gubernatorial veto may be overridden by a two-thirds vote of each house of the legislature. In addition, broad appointive and investigatory powers are vested with the Governor by State statute.

The Lieutenant Governor performs duties provided by law and those delegated to him by the Governor. No power specifically vested in the Governor by the constitution may be delegated to the Lieutenant Governor. The Governor and Lieutenant Governor are elected as a unit.

The Attorney General is the chief legal officer of the State and provides legal services to all executive offices of State government and to county and municipal agencies and officials. The Attorney General also supervises and coordinates law enforcement throughout the State.

The State Auditor issues State warrants for the payment of funds out of the State treasury and maintains the State payroll system. No moneys may be paid out of the State treasury except upon State warrants issued by the State Auditor; provided, however, that interest and principal on the public debt may be paid by treasurer's check from the moneys pledged for such payment. The State Auditor is also ex-officio commissioner of insurance, ex-officio investment commissioner, and a member of the State Land Board.

The Secretary of State maintains the official records of all acts of the executive and legislative branches and performs other related duties prescribed by law.

The Superintendent of Public Instruction is responsible for general supervision of public schools and school districts in the State. The Superintendent provides consultative and technical assistance in assessment of the State's educational needs, assists in teacher preparation and certification, assists in school accreditation, and provides information, legal and financial services to schools and school districts.

Department of Administration. The Department of Administration is responsible for the financial and central service functions of State government. It is composed of eleven operating divisions and provides administrative services to four agencies that are attached for administrative purposes only. The Department's 1983-1985 biennial appropriation authorizes 433 staff positions and expenditures of \$52.4 million, excluding capital construction and retirement payments.

The Department of Administration is administered by a director, a deputy director and thirteen division administrators. The director is appointed by the Governor, subject to the senate's confirmation and serves at the Governor's pleasure.

The Director of the Department of Administration is the ex-officio State Treasurer. The State Treasurer's duties include serving as the custodian of all moneys and securities of the State, receiving and accounting for all moneys belonging to the State unless otherwise provided by law, and purchasing or redeeming warrants.

Judicial Branch

The Montana judicial branch comprises three court levels: the supreme court, district courts, and justice courts.

The supreme court, presided over by the chief justice and six associate justices, has appellate jurisdiction and may issue, hear and determine writs appropriate thereto. The supreme court has original jurisdiction in matters of habeas corpus and such other writs as provided by law. In addition, the supreme court has supervisory control over all other State courts and makes rules governing appellate procedures, the practices and procedures of all other courts, admission to the bar and the conduct of bar members.

District courts in Montana have original jurisdiction in all criminal cases amounting to felony and in all civil matters and cases at law and in equity. District courts also hear appeals from inferior courts. There are 19 judicial districts in Montana, presided over by 32 district court judges.

The third tier of Montana's justice system is the justice court, presided over by justices of the peace. These courts have no trial jurisdiction in criminal cases involving felonies except as examining courts to conduct preliminary hearings.

All officials of Montana's judicial branch are elected. Terms of office are as follows: supreme court justices, eight years; district court judges, six years; and justices of the peace, four years.

FINANCIAL MATTERS

Prior to July 1, 1983, the State financed its activities through 15 statutory funds, the primary two being the General Fund and the Earmarked Revenue Fund. Effective July 1, 1983, Montana adopted the fund structure recommended by the National Council on Governmental Accounting to comply with generally accepted accounting principles. Tax and non-tax revenues of the State are distributed into the various funds, and expenditures pursuant to legislative appropriations are made out of the appropriate fund. The State operates on a July 1 through June 30 fiscal year.

Attached hereto as Appendix C are financial statements of the State and a letter of review of the State's Legislative Auditor.

The State's latest comprehensive annual financial report will be sent to anyone desiring financial statements of all funds. Address requests to Department of Administration, Accounting Division, Mitchell Building, Room 255, Helena, Montana 59620, or call (406) 444-3092.

Financial Control Procedures

The financial control procedures utilized by the State may generally be summarized as follows: initially, the legislature appropriates funds to each agency; such funds are then allocated by each agency to its various programs; each program manager further allocates his share of the appropriation to its various objects of expenditures; allocated balances are encumbered when valid obligations are incurred; funds are actually expended when agencies process vendor claims or payrolls through the Statewide Budgeting and Accounting System and the State Auditor issues a warrant against funds in the treasury.

An appropriation for a project or service is initially contained in an appropriations bill enacted by the legislature. Before an appropriation for the administration, operation and maintenance of a budgeted agency becomes available for expenditure, the agency must submit to the Governor, through the office of budget and program planning, before the beginning of the fiscal year for which the appropriation was made, an operating plan that shows the allotment of the appropriated funds. The operating plans must be approved by the Governor or his designee. However, the Governor may not reduce appropriations for debt service, the legislative and judicial branches, public schools or salaries of elected officials. Each warrant issued by the State Auditor against appropriated funds in the State treasury must be against a specific appropriation in a specific fund. The Department of Administration is responsible for keeping an account of each appropriation. No warrant may be issued by the State Auditor in an amount in excess of the available fund cash or in excess of the unencumbered appropriated balance. The State Treasurer is required to honor all warrants drawn. Civil sanctions may be imposed, pursuant to statute, upon certain officials who willfully expend or authorize the expenditure of funds for any purpose in excess of the amount specifically appropriated for such purpose.

The Department of Administration is authorized by statute to establish procedures to ensure that expenditures are made and accounted for in accordance with the budget plan authorized by the legislature in the enactment of the appropriations. When authorized by the Governor, the budget director may require a quarterly allotment system of expenditures for any agency, institution or office.

Cash, appropriation, revenue estimate, and subsidiary detail ledger balances are available on a daily basis to agency managers and the Department of Administration. Widespread use of computer terminals allows all managers to continuously monitor the balances for their programs. Monthly detailed reports are provided to each program manager. Summary reports are provided to oversight agencies monthly.

Any valid obligation not paid within a fiscal year is accrued at the end of the fiscal year, and payment is made when the goods or services are received. Appropriations revert after the expiration of the time for which so appropriated to the funds from which originally appropriated. Any unexpended balance in any specific appropriation may be used in the following fiscal year for valid expenditures pertaining to the year for which the appropriation was made. Appropriation reversions in the General Fund average 2% each fiscal year.

Accounting System and Legislative Audit

The State has established a centrally maintained computerized accounting and financial reporting system. The Department of Administration maintains and operates the system on behalf of user agencies, including the higher education system. The system automatically: (1) controls cash and appropriation balances, (2) compares transactions within established rules, (3) records valid transactions, (4) produces standard financial reports, and (5) produces a series of special reports.

The State uses the modified accrual basis of accounting in the governmental funds. Revenues are recorded when measurable and available to finance current operations and expenditures are recorded when a valid obligation is incurred. For an expenditure to qualify as a valid obligation, the following rules are used: (i) payroll costs are accrued in the fiscal year in which earned; (ii) services generally must have been rendered during the fiscal year in which the anticipated expenditure is to be accrued; (iii) equipment costs are accrued in the fiscal year in which ordered and budgeted; and (iv) materials and supplies are expensed in the year when received insofar as it is practicable to do so. Full accrual basis of accounting is used in the proprietary funds, the applicable trust funds and the higher education funds.

The financial information is summarized by funds and accounting entities within each fund. Prior to June 30, 1983, there were approximately 1,500 accounting entities within fifteen statutory funds. An accounting entity is defined as an independent fiscal entity with a self-balancing group of accounts to properly reflect compliance with legal and contractual provisions.

The Legislative Auditor performs audits of all agencies on a two-year rotating basis but does not audit the General Fund as a separate accounting entity. Selected central operations, including the State treasury function, the State investment function, the central data processing functions for the statewide budgeting and accounting system, the central payroll system, and the central warrant writing system are audited annually.

Commencing with the 1984 fiscal year, the Legislative Auditor will perform an audit of the State's financial report taken as a whole in conformity with generally accepted auditing standards. Steps to prepare for and implement this audit are currently underway.

Cash Management and Investment Procedures

The Board of Investments within the Department of Administration has the investment responsibility for all funds including the General Fund and all retirement and trust funds, excluding that portion of the Coal Severance Tax Trust Fund invested by the State Department of Commerce. The board is statutorily composed of five members of the general public who are experienced in the field of financial investments.

Except for specifically requiring that no more than 50% of the State's retirement funds moneys may be invested in common stock, the statutes of the State permit investments under the "prudent man" rule.

In the early 1970's, Montana passed legislation designed to improve the procedure for cash management and the investment of all State moneys. In 1973 the short-term investment pool ("STIP") was created. This combined investment pool allows all surplus cash of all State funds and cities and counties of the State to be invested as one fund by the State. Individual participants in STIP can add or withdraw moneys on a daily basis with interest earned from the date of deposit to date of withdrawal.

All banks holding major account balances report balances daily. This enables the Department of Administration to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested. The total book value of investments under management as of June 30, 1981, 1982 and 1983 were \$1,156,000,247, \$1,368,737,318, and \$1,547,198,879 respectively.

The State Budget Process

Montana is a biennial budget state. The State Constitution requires that appropriations in the budget adopted by the legislature shall not exceed available revenues. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues.

The budget cycle begins with the preparation of agency plans in January of each even-numbered year. Agency budget requests are submitted to the Governor and the Legislative Fiscal Analyst by September 1 of even-numbered years. The Governor, together with the budget director, reviews these requests, establishes priorities and balances the budget within currently authorized and anticipated revenues. On December 1, a copy of the Governor's budget is submitted to the Legislative Fiscal Analyst who then prepares a recommendation and a comparison of those recommendations with the Governor's budget and submits it to the legislature. The Governor's budget is released to the public and the legislature by the first week of the legislative session. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported out to the house and subsequently to the senate. Prior to June 30, the legislature generally enacts one bill making the general appropriations for the next two fiscal years. Other appropriations for special projects are also enacted by the legislature, but only within the limits of revenue available. Agencies must prepare and submit to the budget director by July 1 of each year operational plans showing the allocation of operating budgets by line item. The budget director may authorize transfers of funds between line items unless limited by the appropriation act or other statute.

Under the State Constitution, the Governor has the power to veto any line of any itemized appropriation bill while at the same time approving the remainder of the bill. The legislature can vote on the Governor's recommendation or reconsider and repass such disapproved items of appropriation by a two-thirds vote.

Approved positions are established for each agency, and no employee may be hired unless an authorized vacant position is available. Appropriations may not be increased for General Fund agencies. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization to the Governor through the budget director. The Governor may grant such authorization if he finds that the expenditure is the result of an unforeseen emergency, but must report this action to the legislature and request that any necessary supplemental appropriation bills be passed.

An expenditure limitation law was passed by the 1981 legislature. It states that expenditures in the General Fund and Earmarked Revenue Funds for a biennium may not exceed the percentage growth in the average Montana total personal income. The limitation can be exceeded only by a declaration of emergency by the Governor with a two-thirds concurrence by both houses of the legislature.

Financial Statements

The financial reports for fiscal year 1983 presented in this appendix are significantly different from financial statements prepared in prior years. They reflect changes made by the State in order to implement more stringent standards of governmental reporting established by the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). Due to changes necessary to implement generally accepted accounting principles (GAAP), the fiscal year 1983 financial statements are not comparable with those from any previous year. Where the following financial information is not in compliance with GAAP, the differences have been noted. In the ensuing fiscal years, the State will continue to address the changes needed to report in complete conformity with GAAP.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

State of Montana
Board of Examiners

We have reviewed the accompanying Combined Balance Sheet - All Fund Types and Accounts Groups of the State of Montana and the Combining Balance Sheet - All Higher Education Funds as of June 30, 1983 and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Equity/Fund Balances - All Proprietary Fund Types and Similar Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund and Special Revenue Fund Type; and Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds for the fiscal year then ended, in accordance with standards established by the AICPA. All information included in these financial statements is the representation of officials of the State of Montana.

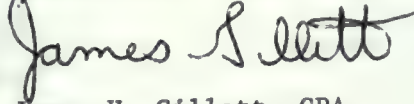
A review consists principally of inquiries of department personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, with the exception of the matters described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Certain items in the financial statements are not presented in accordance with generally accepted accounting principles. These items related to omission of required statements, quasi-external transactions, and intra-fund transactions and are outlined in the

Basis of Presentation section under Note 1 to the financial statements. The dollar effect of these departures from generally accepted accounting principles on financial position, results of operations, and changes in financial position have not been determined.


Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

July 23, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

mslh

STATE OF MONTANA
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1983

(Expressed in Thousands)

ASSETS	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Cash and Cash Equivalents	\$ 66,549	\$ 114,940	\$ 12,320	\$ 12,717
Cash with Fiscal Agent		1,700		
Receivables (Net)	19,865	10,493	1,287	1,191
Interentity Loans Receivable	1,047	21,783		
Due from Other Funds	11,570	49,154	2	(48)
Due from Other Governments	16	39,541		
Inventories	2,380	14,848		
Advances to Investment Pool		23,652	459	12,233
Other Advances				
Long-Term Notes and Loans Rec.		8,779		
Investments		21,385	10,915	6,996
Restricted Assets				
Land				
Buildings and Improvements				
Equipment				
Other Fixed Assets				
Construction in Progress				
Accumulated Depreciation				
Amt. Avail. Debt Service Fund				
Amt. to be Provided to Retire Long-Term Debt				
Other Assets	297	2,317		14
Total Assets	\$ 101,724	\$ 308,592	\$ 24,983	\$ 33,103
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable and Accruals	\$ 12,927	\$ 41,005	\$ 178	\$ 798
Interentity Loans Payable		21,116		796
Due to Other Funds	7,049	32,208	1	(17)
Due to Other Governments	1,565	2,990		
Current Notes and Bonds Payable	50		290	
Other Payables		1,347		54
Deferred Revenue	16,922	18,205	990	718
Long-Term Notes and Bonds Payable				
Property Held in Trust	18	549		
Total Liabilities	38,531	117,420	1,459	2,349
Fund Equity:				
Contributed Capital				
Invest. in Gen. Fixed Assets				
Retained Earnings:				
Reserved for Bond Retirement				
Reserved for Encumbrances				
Unreserved				
Fund Balances:				
Reserved For:				
Encumbrances	2,261	9,054		34
Inventories	2,380	14,837		
Retirement System				
Long-Term Assets		4,508		
Debt Service			23,524	
Federal Loans and Special Trusts		10,289		
Continuing Appropriations	1,657	16,327		92,941
Unreserved	56,895	136,157		(62,221)
Total Fund Equity	63,193	191,172	23,524	30,754
Total Liabilities and Fund Equity	\$ 101,724	\$ 308,592	\$ 24,983	\$ 33,103

The notes to the financial statements are an integral part of this statement

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		HIGHER EDUCATION FUNDS	TOTAL (Memorandum Only)
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG- TERM DEBT		
2,630	\$ 5,575	\$ 397,170	\$	\$	\$ 33,035	\$ 644,936
						1,700
4,771	606	50,592			15,817	104,622
	40	237			5,245	28,352
547	2,954	37,513			8,183	109,875
		52			113	39,722
8,901	760	8			4,479	31,376
6,993	8,105	134,323			11,763	197,528
		153,899				153,899
241,661	160	1,681				252,281
75,852		1,049,162			1,055	1,165,365
37,043						37,043
	925	49,434	34,036		7,488	91,883
1,974	1,003	158	122,932		184,412	310,479
979	43,822	79	39,388		44,455	128,723
	1,781		841		23,472	26,094
	295		29,295		29,358	58,948
(786)	(19,937)	(79)				(20,802)
				23,524		23,524
				110,905		110,905
64	2	18,281			1,015	21,990
<u>380,629</u>	<u>\$ 46,091</u>	<u>\$ 1,892,510</u>	<u>\$ 226,492</u>	<u>\$ 134,429</u>	<u>\$ 369,890</u>	<u>\$ 3,518,443</u>
7,033	\$ 3,656	\$ 6,872			\$ 19,687	\$ 92,156
	1,194				5,233	28,339
3,136	1,389	57,508			8,601	109,875
		16,162			26	20,743
		493,684			11,619	340
926	11	5,812			599	506,704
331,806				134,429	39,504	44,183
	6	44,361			344	505,739
<u>342,901</u>	<u>6,256</u>	<u>624,399</u>	<u>0</u>	<u>134,429</u>	<u>85,613</u>	<u>45,278</u>
						<u>1,353,357</u>
	2,420					2,420
			226,492		249,024	475,516
19,434						19,434
69	851					920
18,225	36,564					54,789
		37				11,386
		728,510				17,217
						728,510
						4,508
		462,177			14,999	23,524
		77,387			22,485	487,465
<u>37,728</u>	<u>39,835</u>	<u>1,268,111</u>	<u>226,492</u>	<u>0</u>	<u>(2,231)</u>	<u>133,410</u>
<u>380,629</u>	<u>\$ 46,091</u>	<u>\$ 1,892,510</u>	<u>\$ 226,492</u>	<u>\$ 134,429</u>	<u>\$ 369,890</u>	<u>\$ 3,518,443</u>

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 1983

(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTAL (Memo Only)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	
REVENUES:						
Licenses and Permits	\$ 19,426	\$ 33,974	\$	\$	\$ 1	\$ 53,401
Taxes:						
Gas, Oil and Coal Prod.	63,087	14,150	1,000			78,237
Individual Income	97,730	38,176	16,797			152,703
Corporate Income	20,974	11,628	3,605			36,207
Other	23,341	100,245	8,305	2,857		134,748
Service Fees and Fines	2,633	7,663			792	11,088
Investment Earnings	50,167	29,348	1,184	5,352	7,076	93,127
Reimbursements	12,673	6,410				19,083
Sale of Doc. Mdse. and Property	4,591	1,081		281		5,953
Rentals, Leases and Royalties	116	459		564		1,139
Fiduciary and Trust		42			104,341	104,383
Grants and Gifts	1	7,234	3		4	7,242
Federal Assistance		281,502			716	282,218
Other	387	1,320				1,707
Total Revenues	295,126	533,232	30,894	9,054	112,930	981,236
EXPENDITURES:						
General Government	53,317	18,993		1,438		73,748
Public Safety & Corrections	31,059	15,517				46,576
Transportation	1,413	160,478			833	162,724
Health and Social Services	103,603	144,752				248,355
Education and Cultural	44,772	159,147			6	203,925
Resource Dev. and Recreation	9,791	33,797				43,588
Economic Development and Assist.	2,816	31,551			123,397	157,764
Debt Service—Principal			3,734			3,734
Debt Service—Interest	1,338		5,906			7,244
Capital Outlay	233	7,142		18,326		25,701
Total Expenditures	248,342	571,377	9,640	19,764	124,236	973,359
Excess of Revenues Over (under) Expenditures	46,784	(38,145)	21,254	(10,710)	(11,306)	7,877
PRIOR YEAR ADJUSTMENTS	6,794	(19,519)	59	107	1,306	(11,253)
OTHER FINANCING SOURCES (USES):						
Bond Proceeds		50,120	13,180			63,300
Increase (Decrease) in Inventories	1,122	1,824				2,946
Operating Transfers In (Out)	(61,034)	27,091	(21,869)	1,696	(3,111)	(57,227)
Total Other Financing Sources	(59,912)	79,035	(8,689)	1,696	(3,111)	9,019
PRIOR YEAR TRANSFER ADJUSTMENT	32,143	(31,756)	(5)	0	5,455	5,837
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	25,809	(10,385)	12,619	(8,907)	(7,656)	11,480
FUND BALANCES—JULY 1- As Previously Stated	34,336	204,903	10,766	39,022	89,590	378,617
PRIOR PERIOD ADJUSTMENTS (See Note 3)	3,048	(3,346)	139	639	(4,547)	(4,067)
FUND BALANCES—JULY 1 - As Restated	37,384	201,557	10,905	39,661	85,043	374,550
FUND BALANCES—JUNE 30	\$ 63,193	\$ 191,172	\$ 23,524	\$ 30,754	\$ 77,387	\$ 386,030

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, and Changes in Fund Equity/Fund Balances

All Proprietary Fund Types and Similar Trust Funds

For the Fiscal Year Ended June 30, 1983

(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		TOTAL (Memo Only)
	ENTERPRISE	INTERNAL SERVICE	NONEXP. TRUST	PENSION TRUST	
OPERATING REVENUES:					
Taxes	\$	\$	\$ 59,837	\$	\$ 59,837
Charges for Services	68,888	34,581		675	104,144
Investment Earnings	28,698		8,008	66,486	103,192
Contributions				99,201	99,201
Gifts			373		373
Other	775		10,124	60	10,959
Total Operating Revenue	98,361	34,581	78,342	166,422	377,706
OPERATING EXPENSES:					
Personal Services	5,216	11,223		761	17,200
Contractual Services	3,011	2,343		160	5,514
Supplies and Materials	31,230	6,168		10	37,408
Debt Service	23,660				23,660
Benefits	12,444	2,505		58,355	73,304
Communications		3,808			3,808
Depreciation	111	3,199		10	3,320
Repair and Maintenance		1,857			1,857
Utilities and Rent	970	2,182		46	3,198
Refunds				9,802	9,802
Other	305	2,648	2	360	3,315
Total Operating Expenses	76,947	35,933	2	69,504	182,386
Operating Income	21,414	(1,352)	78,340	96,918	195,320
PRIOR YEAR ADJUSTMENTS	31	(916)	2,925	(86)	1,954
NONOPERATING REVENUE (EXPENSES):					
Gain on Sale of Fixed Assets	1	19			20
Reduction in Value of Livestock		(435)			(435)
Miscellaneous	36	88			124
Investment Earnings		959			959
Sale of Property			207		207
Total Nonoperating Revenue (Expenses)	37	631	207	0	875
Income before Operating Transfers	21,482	(1,637)	81,472	96,832	198,149
OPERATING TRANSFERS IN (OUT)	(15,265)	0	(5,936)	25	(21,176)
PRIOR YEAR TRANSFER ADJUSTMENTS	(70)	(1,079)	(3,331)	(196)	(4,676)
Net Income (Loss)	6,147	(2,716)	72,205	96,661	172,297
RETAINED EARNINGS/FUND BALANCE— JULY 1—As Previously Stated	31,331	39,338	389,415	619,327	1,079,411
PRIOR PERIOD ADJUSTMENTS (See Note 3)	250	1,011	560	12,559	14,380
RETAINED EARNINGS/FUND BALANCE— JULY 1—As Restated	31,581	40,349	389,975	631,886	1,093,791
RESIDUAL EQUITY TRANSFERS	0	2,202	(3)	0	2,199
RETAINED EARNINGS/FUND BALANCE— JUNE 30	\$ 37,728	\$ 39,835	\$ 462,177	\$ 728,547	\$ 1,268,287

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual (Budget Basis)

General Fund and Special Revenue Fund Type

For the Fiscal Year Ended June 30, 1983

(Expressed in Thousands)

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUES:			
Licenses and Permits	\$ 19,510	\$ 19,426	\$ (84)
Taxes:			
Cigarette and Tobacco			
Gas, Oil and Coal Production	61,904	61,522	(382)
Individual Income	97,742	97,152	(590)
Corporate Income	22,803	20,734	(2,069)
Alcoholic Beverages	22,955	23,341	386
Fuel			
Miscellaneous			
Service Fees and Fines	2,163	2,237	74
Investment Earnings	55,796	48,385	(7,411)
Reimbursements	9,973	12,264	2,291
Sale of Documents, Merchandise and			
Property	5,545	4,588	(957)
Rentals, Leases and Royalties	164	110	(54)
Fiduciary and Trust			
Grants and Gifts			
Federal Assistance			
Miscellaneous	11	17	6
Total Revenues	298,566	289,776	(8,790)
EXPENDITURES:			
General Government	55,048	51,583	3,465
Public Safety and Corrections	33,109	31,487	1,622
Transportation	1,436	1,408	28
Health and Social Services	105,933	104,117	1,816
Education and Cultural	45,486	44,815	671
Resource Development and Recreation	10,339	9,970	369
Economic Development and Assistance	2,986	2,827	159
Debt Service-Interest	1,338	1,338	0
Capital Outlay	235	235	0
Total Expenditures	255,910	247,780	8,130
Excess of Revenues Over			
(under) Expenditures	42,656	41,996	(660)
PRIOR YEAR ADJUSTMENTS	(1,558)	(1,558)	0
OTHER FINANCING SOURCES (USES):			
Bond Proceeds			
Operating Transfers In (Out)	(61,265)	(61,899)	(634)
Total Other Financing Sources	(61,265)	(61,899)	(634)
PRIOR YEAR TRANSFER ADJUSTMENT	32,125	32,125	0
Excess of Revenues and Other			
 Sources Over (under) Expenditures			
 and Other Uses	11,958	10,664	(1,294)
FUND BALANCE—JULY 1	34,336	34,336	0
FUND BALANCE—JUNE 30	\$ 46,294	\$ 45,000	\$ (1,294)

The notes to the financial statements are an integral part of this statement.

SPECIAL REVENUE FUND TYPE			TOTAL (Memorandum Only)		
BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 24,161	\$ 33,956	\$ 9,795	\$ 43,671	\$ 53,382	\$ 9,711
14,480	14,150	(330)	76,384	75,672	(712)
38,181	37,950	(231)	135,923	135,102	(821)
12,528	11,534	(994)	35,331	32,268	(3,063)
			22,955	23,341	386
101,963	97,803	(4,160)	101,963	97,803	(4,160)
2,329	2,442	113	2,329	2,442	113
8,177	7,475	(702)	10,340	9,712	(628)
1,422	1,641	219	57,218	50,026	(7,192)
8,290	5,964	(2,326)	18,263	18,228	(35)
1,274	973	(301)	6,819	5,561	(1,258)
532	452	(80)	696	562	(134)
37	42	5	37	42	5
1,650	1,243	(407)	1,650	1,243	(407)
170,266	164,759	(5,507)	170,266	164,759	(5,507)
111,802	120,488	8,686	111,813	120,505	8,692
<u>497,092</u>	<u>500,872</u>	<u>3,780</u>	<u>795,658</u>	<u>790,648</u>	<u>(5,010)</u>
28,167	18,967	9,200	83,215	70,550	12,665
18,015	15,519	2,496	51,124	47,006	4,118
191,323	165,265	26,058	192,759	166,673	26,086
154,604	141,815	12,789	260,537	245,932	14,605
158,485	155,975	2,510	203,971	200,790	3,181
43,703	33,191	10,512	54,042	43,161	10,881
44,615	29,208	15,407	47,601	32,035	15,566
			1,338	1,338	0
14,825	7,119	7,706	15,060	7,354	7,706
<u>653,737</u>	<u>567,059</u>	<u>86,678</u>	<u>909,647</u>	<u>814,839</u>	<u>94,808</u>
(156,645)	(66,187)	90,458	(113,989)	(24,191)	89,798
(19)	(19)	0	(1,577)	(1,577)	0
50,120	50,120	0	50,120	50,120	0
15,637	32,117	16,480	(45,628)	(29,782)	15,846
<u>65,757</u>	<u>82,237</u>	<u>16,480</u>	<u>4,492</u>	<u>20,338</u>	<u>15,846</u>
3	3	0	32,128	32,128	0
(90,904)	16,034	106,938	(78,946)	26,698	105,644
199,122	199,122	0	233,458	233,458	0
<u>\$ 108,218</u>	<u>\$ 215,156</u>	<u>\$ 106,938</u>	<u>\$ 154,512</u>	<u>\$ 260,156</u>	<u>\$ 105,644</u>

STATE OF MONTANA
Combined Statement of Changes in Financial Position
All Proprietary Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 1983
(Expressed in Thousands)

	ENTERPRISE	INTERNAL SERVICE	NON EXP. TRUST	PENSION TRUST	TOTAL (Memo Only)
SOURCES OF WORKING CAPITAL:					
Operations:					
Net Income (Loss)	\$ 6,147	\$ (2,716)	\$ 72,205	\$ 96,661	\$172,297
Items not Requiring Working Capital:					
Depreciation	111	3,199		10	3,320
Amortization of Net Loss on Securities Exchanged			1,365	2,286	3,651
Prior Period Adjustment (See Note 3)	250	1,011	560	12,559	14,380
Working Capital Provided by Operations	6,508	1,494	74,130	111,516	193,648
Sale of Long-Term Investments			39,012	110,052	149,064
Reduction in Value of Livestock		435			435
Disposal of Fixed Assets	84	686			770
Decrease in Noncurrent Receivables	5,017		115		5,132
Increase in Noncurrent Payables	85,000	344			85,344
Transfers from Other Funds		2,399			2,399
Total Sources of Working Capital	96,609	5,358	113,257	221,568	436,792
USES OF WORKING CAPITAL:					
Purchase of Long-Term Investments	13,927		88,902	214,590	317,419
Acquisition of Fixed Assets	156	6,291		204	6,651
Decrease in Noncurrent Payables	27,690	776	711		29,177
Purchase of Mortgage Loans	49,884				49,884
Transfers to Other Funds		197	3		200
Payments of Issuance Costs	2,295				2,295
Total Uses of Working Capital	93,952	7,264	89,616	214,794	405,626
Net Increase (Decrease) in Working Capital	\$ 2,657	\$ (1,906)	\$ 23,641	\$ 6,774	\$31,166
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:					
Cash and Cash Equivalents	1,617	(1,798)	4,767	(7,924)	(3,338)
Accounts Receivable	633	(1,681)	1,412	15,045	15,409
Due from Other Funds	(3,900)	1,826	3,772	5,563	7,261
Inventories	(2,170)	(17)		8	(2,179)
Advances to Investment Pool	2,027	(966)	10,104	(1,928)	9,237
Investments		297			297
Interentity Loans Receivable	(6)	(64)			(70)
Other Assets		(19)	12,689		12,670
Accounts Payable	(629)	252		229	(148)
Due to Other Funds	5,510	500	(9,041)	(4,043)	(7,074)
Due to Other Governments			(83)		(83)
Other Payables				5	5
Deferred Revenue	(450)	45	(7)	(181)	(593)
Property Held in Trust		(6)			(6)
Interentity Loans Payable	25	(275)	28		(222)
Net Increase (Decrease) in Working Capital	\$ 2,657	\$ (1,906)	\$ 23,641	\$ 6,774	\$ 31,166

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Balance Sheet
All Higher Education Funds
June 30, 1983
(Expressed in Thousands)

	CURRENT	FIDUCIARY	PLANT	TOTAL (Memo Only)
ASSETS				
Cash and Cash Equivalents	\$ 15,433	\$ 5,781	\$ 11,821	\$ 33,035
Receivables (Net)	1,748	14,016	53	15,817
Interentity Loans Receivable	4,913	50	282	5,245
Due from Other Funds	6,156	1,433	594	8,183
Due from Other Governments	113			113
Inventories	4,478	1		4,479
Advances to Investment Pool	7,194	1,821	2,748	11,763
Investments	477	417	161	1,055
Land			7,488	7,488
Buildings and Improvements			184,412	184,412
Equipment			44,455	44,455
Other Fixed Assets			23,472	23,472
Construction in Progress			29,358	29,358
Other	489	5	521	1,015
Total Assets	\$ 41,001	\$ 23,524	\$ 305,365	\$ 369,890
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable & Accruals	\$ 15,686	\$ 2,863	\$ 1,138	\$ 19,687
Interentity Loans Payable	4,524	129	580	5,233
Due to Other Funds	7,372	679	550	8,601
Due to Other Governments	25	1		26
Other Payables	11,424	170	25	11,619
Deferred Revenue	483	107	9	599
Notes and Bonds Payable			39,504	39,504
Property Held in Trust	335	9		344
Total Liabilities	39,849	3,958	41,806	85,613
Fund Equity:				
Invest. in Gen. Fixed Assets			249,024	249,024
Fund Balance:				
Unreserved	(21,255)	4,601	14,423	(2,231)
Reserved For:				
Continuing Appropriations	22,373		112	22,485
Fed. Loans & Spec. Trusts	34	14,965		14,999
Total Fund Equity	1,152	19,566	263,559	284,277
Total Liabilities and Fund Equity	\$ 41,001	\$ 23,524	\$ 305,365	\$ 369,890

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS

June 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity**—For financial reporting purposes, in conformance with the National Council on Governmental Accounting (NCGA) pronouncement, "Defining the Governmental Reporting Entity-Statement 3, the State of Montana includes all funds, account groups, agencies, boards and commissions that are controlled by or dependent on the State's legislative, executive or judicial branches. Control by or dependence on the State was determined on the basis of the following criteria, as defined in NCGA Statement 3: selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public service.

Community colleges are not considered part of the State reporting entity, thus they are excluded from the accompanying financial statements for the following reasons. The State's General Fund provided 53 percent of the colleges' current unrestricted budgets for fiscal year 1983; the remainder of the colleges' operating and capital expenditures, including debt service, are financed entirely from nonstate sources such as tuition, federal grants and local tax levies. The State has no obligation to fund the colleges' budgets. At year-end, any surplus remains with the colleges. A Board of Trustees is elected by the voting public in each community college district to administer and control the colleges. The Board of Trustees adopts rules, grants certificates, controls all college assets, receipts and disbursements, and hires key personnel. The college district may issue bonds for which the full faith, credit and taxable resources of the district are pledged. Outstanding debt of the community college districts is not an obligation of the State.

- B. Basis of Presentation**—Montana reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed by the National Council on Governmental Accounting, the American Institute of Certified Public Accountants, and the National Association of College and University Business Officers, except as follows:

- (1) Required Statements of Current Funds Revenues, Expenditures, and Other Changes—All University Current Funds and Statements of Changes in Fund Balance—All University Funds excluding Agency Funds, are not presented;
- (2) Amounts reported as transfers include certain quasi-external transactions that should be reported as revenues and expenditures/expenses; and
- (3) Intra-fund transactions are not eliminated.

Montana's various funds are grouped in the financial statements in this report as follows:

GOVERNMENTAL FUNDS

General Fund—To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds—To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds—To account for resources accumulated for payment of general long-term debt principal and interest.

Capital Project Funds—To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds—To account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily

through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds—To account for the financing of goods and services provided by one department or agency to other departments or agencies or to other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds—To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, and (d) agency funds.

ACCOUNT GROUPS

General Fixed Assets Account Group—To account for all fixed assets of the State, except those accounted for in the proprietary, nonexpendable and pension trust, and plant funds.

General Long-Term Debt Account Group—To account for all long-term obligations of the State, except those accounted for in proprietary, nonexpendable and pension trust, and plant funds.

HIGHER EDUCATION (UNIVERSITY AND VOCATIONAL-TECHNICAL CENTER) FUNDS

Current Funds—To account for unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and restricted funds which may be utilized only in accordance with external restrictions.

Fiduciary Funds—To account for resources available for loan to students, faculty and staff; endowment funds; and resources held by the institution as custodian or fiscal agent.

Plant Funds—To account for institutional property acquisition, renewal, replacement, debt service and investment.

Amounts in the "Total—Memo Only columns in the preceeding financial statements represent a summation of the combined financial statement line-items of the fund types and account groups. These amounts are presented for analytical purposes only. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amount to be Provided to Retire Long-Term Debt which is not an asset in the usual sense. Consequently, amounts shown in the "Total - Memo Only columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the State.

- C. **Basis of Accounting**—The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance measurement focus. This means that all assets and all liabilities associated with this activity are included on their balance sheets. Their reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed in the governmental funds and expendable trust funds. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues. Taxes on coal sales, gas and oil production and individual income are recognized as revenues, if available, when tax returns are filed since they normally are only measurable at that time. Property tax revenues are recognized when received.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred with the following exceptions, which are in accordance with generally accepted accounting principles:

- 1) principal and interest on long-term debt is reported when due;
- 2) obligations for employees' vested annual leave and sick leave are reported as expenditures when paid;
- 3) prepayments are accounted for as expenditures in the period of acquisition; and
- 4) inventory items are considered expenditures when purchased.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and report on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable). Student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted.

Proprietary funds' unbilled receivables are recognized as revenue.

- D. The State Budget Process**—Montana is a biennial budget state. The constitution requires that appropriations in the budget adopted by the Legislature shall not exceed available revenues. Expenditures may not legally exceed budgeted appropriations at the appropriation level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenue. Budgets are required by state law for the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor together with the budget director reviews these requests, establishes priorities and balances the budget within currently authorized and anticipated revenues. A copy of the Governor's budget is submitted to the legislative fiscal analyst who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the Legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported out to the House and subsequently to the Senate. The Legislature generally enacts one bill making all appropriations for the next two fiscal years. Other appropriations are enacted by the Legislature, but only within the revenue available. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by line item. The budget director may authorize transfers of funds between line items unless limited by the appropriation act.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended, if applicable. Supplemental appropriations of \$12,683,467 for the General Fund for fiscal year 1983 were approved during the 1983 Legislative session.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. Appropriations that are not continued are reverted after fiscal year-end. The reverted appropriations will remain available for one year to record proper prior year adjustments. After that time the appropriation authority lapses. Fund balances/retained earnings are not reserved for reverted appropriations.

Because capital projects fund authorizations are not made on an annual basis, capital projects fund activities are not presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budget Basis).

- E. Encumbrances**—Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation, is employed for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures/expenses.
- F. Budget Basis**—The budget basis differs from GAAP for encumbrances outstanding at year-end, fixed assets and inventories purchased in proprietary funds, inventories purchased in higher education funds, and certain loans from governmental funds. Actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. A reconciliation of the differences between the budgetary basis and the GAAP basis is presented in Note 4.
- G. Cash and Cash Equivalents**—This classification includes bank accounts, imprest cash funds, cash in U.S. Treasury, cash with trustee banks, cash on hand at fiscal year-end and short-term investments. These investments are stated at cost, which at June 30, 1983 was approximately 91% of the market value. The majority of short-term investment earnings are credited to the State's General Fund.
- H. Receivables**—This classification, net of uncollectibles, consists primarily of receivables for goods sold and services provided, short-term loans and notes, interest, dividends and income, withholding and inheritance taxes.

An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1983 was \$1.6 million.

- I. Interfund Transactions**—During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets and service debt. The governmental funds financial statements generally reflect such transactions as transfers while the proprietary funds financial statements report these as operating revenue/expense. To the extent that certain transactions between funds have not been paid or received as of June 30, 1983, interfund receivables and payables have been recorded. See Note 5 for a detailed listing of interfund loans.
- J. Inventories**—Inventories of materials and supplies are stated at lower of cost or market. The State allows agencies to use any generally accepted inventory pricing method, but specifies that the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method where inventory purchases are recorded as expenditures. At fiscal year-end significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education funds report using the "consumption method, where inventories are expensed as used.

- K. Advances to Investment Pool**—The Montana Board of Investments operates two investment pools. One allows agencies with small amounts of excess cash to pool their resources for short-term investment purposes, resulting in greater investment earnings. At June 30, 1983 this pool had a market value of \$108.1 million and a book value of \$110.3 million. The other is a pool which purchases common stock of publicly held companies. This pool's market and book values at June 30, 1983 were \$129.5 million and \$87.2 million respectively. Montana statutes limit the types of stock that may be purchased.
- L. Investments**—This classification includes long-term investments stated at cost or amortized cost aggregating \$1,165,365,000. At June 30, 1983 the market value of these investments was \$1,142,448,411. Debt securities included in this classification are expected to be held to maturity and redeemed at face value. Premiums and discounts are amortized over the maturity of the investment using the straight-line method.
- M. Restricted Assets**—Funds set aside for payment of the Housing Authority's revenue bonds and 1% of the amount allocated to the housing programs are classified as restricted assets since their use is restricted by applicable bond resolutions.

- N. Fixed Assets and Depreciation**—The State's general fixed assets are stated at cost and are not depreciated in the General Fixed Assets Account Group. When purchased, such assets are recorded as expenditures in the governmental type funds and Expendable Trust Funds. Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value at the time of receipt. Interest during construction and infrastructure general fixed assets, such as highways, bridges, curbs and gutters, are not capitalized.

Proprietary, Pension Trust, and Nonexpendable Trust Fund fixed assets are accounted for within their respective funds. They are depreciated on a straight-line basis with estimated useful lives of 30-50 years for buildings, 20 years for improvements and 4-12 years for equipment.

University and Vocational-Technical Center fixed assets are accounted for in the Investment in Plant Fund and are not depreciated.

- O. Deferred Revenue**—Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria (measurable and available) have not been met. State policy for most revenues defines "available as being collected within 60 days after fiscal year end. Monies collected in advance of the fiscal year to which they apply are also deferred.

Current year property taxes levied but not collected by fiscal year end are deferred and recorded as revenue when received. Historical analysis indicates a consistent matching regardless of whether property tax revenues are accrued using revenue recognition criteria or are recognized when received.

- P. Fund Balance Reserves**—Portions of fund equity are reported as "reserved to indicate amounts not appropriable for expenditure, such as equity represented by inventories, and amounts legally segregated for a specific future use, such as those pledged for debt service and retirement.

- Q. Employee Annual Vacation And Sick Leave**—It is the State's policy to record the cost of vacation and sick leave when paid. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of twelve days per year with no limit on accumulation. Upon retirement or termination an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. As of June 30, 1983 the State's liability for unused vacation and sick leave for university and vocational-technical center employees was \$11,110,323. The remaining agencies' leave liability at June 30, 1983 was \$23,611,773.

2. COMPARABILITY WITH PRIOR YEARS

- A. Financial Statement Format**—To adopt the requirements of NCGA Statement 1, the State has presented general purpose financial statements by fund type and account group for the first time this year. These general purpose financial statements present a columnar total for all funds of a particular fund type. They are not comparable to the individual fund financial statements presented in prior years.
- B. Fund Structure**—Also to adopt the requirements of NCGA Statement 1, the State has reclassified its financial activities under a new fund structure in the accompanying financial presentations. Fund balances and retained earnings as of July 1, 1982 have been restated for the change in fund structure and are not comparable to prior years' financial statements.
- C. Reporting Entity**—To adopt the requirements of NCGA Statement 3, the State has included operations of vocational-technical centers and bonding activity of the Board of Housing in the accompanying financial statements for the first time. Fund balances and retained earnings as of July 1, 1982 have been restated for the change in reporting entity.

3. ACCOUNTING CHANGES/CORRECTION OF ERRORS

For the fiscal year ended June 30, 1983, the following prior period adjustments have resulted in beginning fund equity restatements to reflect the State's financial position according to generally accepted accounting principles (GAAP):

FUND TYPE	Increase (Decrease)—expressed in thousands					
	A	B	C	D	E	TOTAL
General	\$ 1,362	\$ 2,239	\$	\$ (1,146)	\$ 593	\$ 3,048
Special Revenue	2,793	2,483	(95)	(8,583)	56	(3,346)
Debt Service		139				139
Capital Projects	4	635				639
Enterprise	196	54				250
Internal Service	988	100	(18)		(59)	1,011
Expendable Trust		841		(5,388)		(4,547)
Nonexpendable Trust	711	313		(464)		560
Pension Trust	157	12,057	205		140	12,559
TOTALS	\$ 6,211	\$ 18,861	\$ 92	\$ (15,581)	\$ 730	\$ 10,313

- A. Encumbrances—The State has changed its method of reporting encumbrances to comply with generally accepted accounting principles. Previously, encumbrances outstanding at year-end were reported as expenditures/expenses. In the accompanying financial statements, encumbrances are reported as a reservation of fund balance or retained earnings. To be consistent with budgetary practices, the State has reported the encumbrances as expenditures on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budget Basis). Fund balances and retained earnings as of July 1, 1982 have been restated for the change.
- B. Accrual of investment interest income not previously reported.
- C. To account for fixed assets associated with entities which were reclassified due to a change in fund structure, as discussed further in Note 2. B.
- D. To account for the exchange of fixed income securities using the completed transaction method versus prior usage of the deferral/amortization method.
- E. Miscellaneous restatements.

4. BUDGETARY BASIS VS. GAAP

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual (Budget Basis), General Fund and Special Revenue Fund Type presents comparisons of the legally adopted budget with actual data on a budgetary basis. Adjustments necessary to convert fund balances from the budgetary basis to the GAAP basis shown on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—All Governmental Fund Types follow:

	General	Special Revenue	Totals
Fund Balance (GAAP Basis)	\$ 63,193	\$ 191,172	\$ 254,365
Encumbrance Adjustment (1)	(2,261)	(9,054)	(11,315)
Other Adjustments (2)	(15,932)	33,038	17,106
Fund Balance (Budgetary Basis)	\$ 45,000	\$ 215,156	\$ 260,156

Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. There were no expenditures in excess of total authorized appropriations in the State's individual governmental funds for the year.

Adjustment Explanations (See Note 1, D-F for additional budget information.)

- (1) The GAAP basis statement is adjusted for encumbrances which are reported as expenditures on the budgetary statement.
- (2) Due to budgetary requirements, certain transactions must charge an appropriation which results in expenditure activity that is not in accordance with generally accepted accounting principles (GAAP). For example, when funds are loaned to non-state organizations, the reduction in cash is offset with an appropriated expenditure, rather than a loan receivable. Expenditures in the budgetary basis statement include this type of activity; the GAAP basis statement does not. Another difference between the two statements is nonbudgeted expenditures, such as the write-off of bad debts.

5. INTERFUND LOANS

Individual fund loan receivable and payable balances at June 30, 1983 are as follows:

<u>Fund</u>	<u>Interentity Loans Receivable</u>	<u>Interentity Loans Payable</u>
General Fund	\$ 1,047,860	\$
Special Revenue Fund		
State Special Revenue Fund	21,327,764	800,000
Federal Special Revenue Fund	454,350	16,616,501
Other Special Revenue Funds		3,700,000
Capital Projects Fund		
Capitol Land Grant		796,362
Internal Service Fund		
Motor Pool		32,613
Prison Ranch	40,000	
Other Internal Service Funds		1,161,498
Expendable Trust Fund		
Unemployment Insurance	237,000	
Higher Education Current Fund		
Unrestricted Fund	4,343,729	245,000
Designated Fund	236,000	1,765,266
Auxiliary Fund	88,508	407,986
Restricted Fund	245,543	2,117,563
Higher Education Fiduciary Fund		
Agency Fund	50,000	129,383
Higher Education Plant Fund		
Unexpended Plant Fund	278,918	16,500
Debt Service Plant Fund	3,000	564,000
	<u>\$ 28,352,672</u>	<u>\$ 28,352,672</u>

6. LONG-TERM DEBT

Bonded long-term debt of the State at June 30, 1983 is as follows:

General Obligation Bonds

Series 1980. Issued \$19,130,000, 6.5% to 8.5%, due in principal payments of \$250,000 in 1984 to \$1,440,000 in 2010	\$ 18,485,000
Series 1981. Issued \$36,550,000, 9% to 12%, due in principal payments of \$2,435,000 in 1984 to \$2,440,000 in 1996	31,680,000
Highway Building Complex Bonds. Issued \$7,400,000, 4.10% to 6.10%, due in principal payments of \$305,000 in 1984 to \$600,000 in 1996	5,675,000
Series 6. Montana College of Mineral Sciences and Technology, Physical Ed. Building. Issued \$2,275,000, 4.5% to 6.5%, due in principal payments of \$40,000 in 1984 to \$150,000 in 2008	2,100,000

Revenue Bonds

Series 1, 1965. Issued \$8,640,000, 1% to 4%, due in principal payments of \$305,000 in 1984 to \$465,000 in 1996	4,145,000
Series 2, 1967. Issued \$11,050,000, .10% to 5%, due in principal payments of \$345,000 in 1984 to \$25,000 in 1997	6,515,000
Department of Highways Series 1983. Issued \$64,000,000, 6.75% to 8.25%, due in principal payments of \$11,075,000 in 1986 to \$14,755,000 in 1990	64,000,000
University Funds Issues:	
Montana State University	16,481,000
University of Montana	14,385,000
Eastern Montana College	3,511,000
Northern Montana College	2,792,000
Western Montana College	1,246,000
Montana College of Mineral Sciences and Technology	1,089,000
Charlo Water Supply Bonds	5,000

Other Long-Term Debt (LTD)

Employment Security Division Building mortgage bonds. Issued \$1,390,000, 8%, due in payments of \$123,330 in 1984 and \$15,690 in 1988	447,360
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Total Bonded Long-Term Debt \$ 172,556,360

The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt listed above. The revenue bonds and mortgage bonds are secured by a pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities.

Debt service requirements for principal and interest for all bonded long-term debt is as follows:

For the Year Ending June 30	Gen Oblig. Bonds	Revenue Bonds	Other LTD	Total Requirements
1984	\$ 8,138,870	\$ 8,254,023	\$ 60,000	\$ 16,452,893
1985	7,849,858	9,467,138	60,000	17,376,996
1986	7,552,907	9,197,689	60,000	16,810,596
1987	7,263,258	19,661,913	60,000	26,985,171
1988	6,965,322	19,788,767	13,786	26,767,875
1989-2010	69,913,938	95,370,095		165,284,033
Total	\$ 107,684,153	\$ 161,739,625	\$ 253,786	\$ 269,677,564*

*Includes \$109,360,706 representing Bonds to be refunded as described below.

A summary of changes in General Long-Term Debt for the year ending June 30, 1983 follows:

	Balance July 1, 1982	Issues	Redemptions	Balance June 30, 1983
General Obligation Bonds	\$ 60,935,000	\$	\$ 2,995,000	\$ 57,940,000
Revenue Bonds	52,177,500	65,350,000	3,358,500	114,169,000
Other Long-Term Debt	577,433		130,073	447,360
Total	\$ 113,689,933	\$ 65,350,000	\$ 6,483,573	\$ 172,556,360**

**Amounts available in Debt Service Funds at June 30, 1983 to service General Obligation Bonds, Revenue Bonds, and Other Long-Term Debt are \$22,152,033, \$1,040,606, and \$0, respectively.

Board of Housing Revenue Bonds

The Montana Board of Housing (Housing Authority) is authorized to have an aggregate of \$675 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor may include in the executive budget submitted to the Legislature the sum required to fund possible future deficiencies in required reserves. Although the Legislature is not legally required to appropriate such deficiencies, such revenue bonds are commonly referred to as moral obligation bonds of the State. The board issued \$30 million in bonds during fiscal year 1983. Bonds outstanding at June 30, 1983 were as follows:

Single-Family Mortgage Bonds	\$ 323,745,000
Multi-Family Mortgage Bonds	\$ 15,245,000
Total	\$ 338,990,000

Refunding Bonds

On August 10, 1983 the State issued general obligation refunding bonds in the amount of \$58,160,000 to refund the State's obligation with respect to certain bond issues already outstanding. The proceeds of the refunding issues have been placed in an escrow account and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the following refunded issues: Series 1980, Series 1981, Series 1—1965 and Series 2—1967.

Long Range Building Program Bonds

On October 17, 1983 the State issued General Obligation Long Range Building Program Bonds in the amount of \$39,330,000. The proceeds of the bonds will be used in conjunction with other State funds to pay costs of constructing, renovating or purchasing land and buildings. The major projects included are:

- Expansion of the State Prison
- Construction of a new Department of Natural Resources and Conservation Building
- Expansion of Greenhouse Complex at Montana State University
- Construction of Engineering Lab/Classroom at Montana College of Mineral Science and Technology
- Construction and Renovation of Fish Hatcheries
- Expansion of Veterans' and Pioneer Memorial Building
- Statewide Airport Improvements

Water Development Bonds

On October 17, 1983 the State issued General Obligation Water Development Bonds in the amount of \$1,300,000. The proceeds of the bonds will be used to make loans to political subdivisions and private individuals in the State for various water development projects. The bonds are general obligations of the State and are additionally secured by a pledge of certain coal severance taxes. The bonds represent the first of a \$5 million issue authorized by the 1981 Legislature. The remaining \$3.7 million have not been sold.

Highway Revenue Bond Anticipation Notes

On September 1, 1983 the State Department of Highways issued Highway Revenue Bond Anticipation Notes in the amount of \$39,075,000. The Note proceeds together with investment income thereon and other available funds, are expected to be used to finance a portion of the cost of construction of certain designated public highways within the State. The Notes are limited obligations of the State, payable solely from proceeds of anticipated Department of Highways refunding bonds or notes to the extent not paid from other sources.

Authorized but Unissued

A bond issue of \$5,000,000 was authorized by the 1975 Legislature for the issuance of renewable resource development bonds. The issue has not been sold.

7. PENSION PLANS AND DEFERRED COMPENSATION PLAN

Pension Plans

The State maintains nine pension systems. All the systems provide basic retirement benefits, including early retirement, disability, regular retirement, and death benefits. All systems also provide for termination payments. The nine pension systems are:

1. Public Employees' Retirement System
2. Teachers' Retirement System
3. Judges' Retirement System
4. Highway Patrolmen's Retirement System
5. Sheriffs' Retirement System
6. Game Wardens' Retirement System
7. Municipal Police Officers' Retirement System
8. Volunteer Firefighters' of Unincorporated Areas Retirement System
9. Firefighters' Unified Retirement System

All the systems except Teachers' Retirement are administered by the Public Employees' Retirement Division.

The two largest and most significant pension plans are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

Public Employees Retirement System

PERS, a mandatory system, provides pension services to employees of the State and participating political subdivisions. The system is funded on an "entry-age normal cost basis. This method establishes a "normal cost for each member, as well as an unfunded accrued liability. The annual normal cost is the level percentage of annual salary required to fund the benefits, assuming that percentage had been contributed since the member's entry into the system. To maintain the fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period of 40 years.

PERS members are eligible for retirement benefits at age 60 with a minimum of 5 years of service. Early retirement, at an actuarially reduced benefit, may be taken at age 50 with 5 years of service. An employee with 30 years of service may retire at any age; with 25 years of service at an actuarially reduced benefit amount.

The system is funded by contributions from employees and employers. The contribution rates, based on gross wages, are 6% for employees and 6.32% for employers.

Actuarial valuations are performed every two years. The last completed valuation was for the period ended June 30, 1982. On that date, the unfunded liability was \$273.5 million.

The PERS balance sheet reports book value of assets as of June 30, 1983 of \$379.2 million. The aggregate market value of securities was \$286.4 million. According to the actuarial assumptions employed, the consulting actuaries concluded that the current contribution rate of 12.32% is sufficient to meet currently accruing liabilities of the system and amortize the existing unfunded liability within a period of 42.47 years. Investment of available funds at 7% was assumed.

PERS had approximately 26,879 active members, 8,774 inactive members, and 6,716 retired members as of June 30, 1982. Members become vested after five years of membership.

Teachers Retirement System

TRS is operated by the Teachers Retirement Division. It provides retirement services and membership is mandatory for all persons employed as teachers or professional staff of any public elementary or secondary school or unit of the university system. Membership is also available to any person employed by the Superintendent of Public Instruction (where job duties pertain to instructional services) and any member of the instructional staff of various State custodial institutions. The TRS, as of June 30, 1981, had 14,936 active and 4,486 retired members. Members become vested after five years of membership.

As with PERS, the Teachers Retirement System utilizes the "entry-age normal funding basis. Contributions are paid by employees (6.187% in 1983 and 7.044% in 1984) and employers (6.432% in 1983 and 7.32% in 1984) on gross salaries.

Actuarial valuations are performed every two years. The last valuation was for the period ended June 30, 1981. On that date, the unfunded liability was \$402.6 million. The period required to fund currently maturing liabilities of the system and amortize the existing unfunded liability is 48.5 years at a recommended contribution rate of 13.339%. Investment of available funds at 7% is assumed. The book value of assets as of June 30, 1983 was \$290.2 million. The aggregate market value of securities was \$213.6 million.

TRS members are eligible for retirement at the same ages as PERS members with the requirement that the last 5 years of eligible employment be within Montana. The system has a mandatory retirement age of 70, with exceptions granted university staff by the Board of Regents.

The last reported disclosures for the two major pension systems were:

	PERS	TRS
Participating Employees (6-30-83)	35,559	22,687
Pension Plan Expense (6-30-83)	792,000	536,000
Employee Contributions (6-30-83)	22,671,919	20,786,014
Employer Contributions (6-30-83)	23,151,520	20,158,344
Actuarial Present Value of vested accumulated plan benefits:		
(6-30-82)	460,966,205	
(6-30-81)		413,870,000
Actuarial present value of nonvested accumulated plan benefits:		
(6-30-82)	15,966,315	
(6-30-81)		11,810,000
Net Assets available for benefits		
(6-30-83)	370,839,615	284,130,828
Unfunded liability:		
(6-30-82)	273,524,351	
(6-30-81)		402,612,325
Assumed Rate of Return used by actuary	7%	7%
Assumed inflationary increase for future salaries	5.5%	5.5%

The unfunded liabilities in the other seven systems as of June 30, 1982 were:

Highway Patrol Retirement System	\$ 10,872,809
Game Wardens Retirement System	4,169,898
Sheriffs Retirement System	2,819,340
Montana Judges' Retirement System	5,561,446
Municipal Police Retirement System	31,062,325
Volunteer Firefighters Retirement System(1)	-0-
Unified Firefighters Retirement System	41,340,507

- (1) The Volunteer Firefighters Retirement System has no unfunded liability because it is required by law to be fully funded and cannot pay benefits unless money is available.

Deferred Compensation

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to defer state and federal income taxes on a portion of their salaries. All employees of the State are eligible to participate. The plan operates under the sanction of both state and federal laws.

Participants' rights created under the plan are equivalent to those of general creditors of the State and only in an amount equal to the fair market value of the deferred account maintained with respect to the participant, determined as if the deferred amounts had been invested pursuant to the participants' investment specifications. It is the opinion of the Department of Administration's legal counsel that the state has no liability for losses under this plan, but does have the duty of care which would be required of an ordinary prudent investor. As of June 30, 1983, the net assets of the plan available for benefits totalled \$16,039,884.

8. FIXED ASSETS

Fixed asset balances as of June 30, 1983 and the changes since June 30, 1982 follow:

	<u>6-30-82 Balance</u>	<u>Net Additions (Reductions)</u>	<u>6-30-83 Balance</u>
<u>PROPRIETARY FUNDS</u>			
Land	\$ 918,620	\$ 6,303	\$ 924,923
Buildings & Improvements	2,835,608	140,429	2,976,037
Equipment	37,919,547	6,881,796	44,801,343
Other Fixed Assets	200,465	1,580,941	1,781,406
Construction in Progress	306,401	(11,645)	294,756
Total	\$ 42,180,641	\$ 8,597,824	\$ 50,778,465
Less Accumulated Depreciation			(20,723,474)
Total			\$ 30,054,991
<u>NONEXPENDABLE TRUST FUNDS</u>			
Land	\$ 49,398,756	0	\$ 49,398,756
Total	\$ 49,398,756	0	\$ 49,398,756
<u>HIGHER EDUCATION FUNDS</u>			
Land	\$ 2,636,553	\$ 4,851,727	\$ 7,488,280
Buildings & Improvements	211,783,128	(27,370,960)	184,412,168
Equipment	41,846,055	2,609,388	44,455,443
Other Fixed Assets	32,068,448	(8,596,294)	23,472,154
Construction in Progress	26,012,026	3,345,991	29,358,017
Total	\$314,346,210	\$25,160,148	\$289,186,062
<u>GENERAL FIXED ASSETS ACCOUNT GROUP*</u>			
Land	\$ 30,429,103	\$ 3,606,701	\$ 34,035,804
Buildings & Improvements	112,150,191	10,781,798	122,931,989
Equipment	32,812,120	6,575,782	39,387,902
Other Fixed Assets	735,852	105,100	840,952
Construction in Progress	22,009,150	7,286,445	29,295,595
Total	\$ 198,136,416	\$ 28,355,826	\$ 226,492,242

* Montana does not include purchased and donated art collections held by the Montana Historical Society on the balance sheet. It is not feasible to value these assets in accordance with generally accepted accounting principles. For insurance purposes, the collections have been valued at \$29,994,569.

9. CONTINGENCIES

The State is a defendant in numerous lawsuits involving tort claims which are either covered under the State's self-insurance plan or by private insurance. The State has a self-insurance plan whereby certain reserves are established in the budget for each fiscal year to provide for payment of liabilities which may be incurred. With regard to the pending litigation, it is the opinion of the Attorney General and the Department of Administration counsel that the level of coverage and reserves are adequate and that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially affect its financial position. Any noncovered judgments are referred to the Legislature for consideration in establishing the next biennial budget.

The State is the principal defendant in several lawsuits challenging the imposition of oil, gas and coal severance taxes on Indian reservations and related lands. In 1978 the Crow Tribe of Indians commenced a suit in federal district court for a declaratory judgment that the imposition of the Coal Severance Tax on coal beneficially owned by the Tribe is invalid. Although the district court dismissed the complaint, the Ninth Circuit Court of Appeals reversed the district court's decision in July 1981 and the State's petition for certiorari to the U.S. Supreme Court was denied on October 12, 1982. On November 19, 1982, the Crow Tribe amended its complaint to seek a refund of all coal severance and gross proceeds taxes paid. On January 6, 1983, the district court granted the Crow Tribe's motion to escrow tax payments pending the outcome of litigation. The State estimates that approximately \$50 million of severance taxes have been paid since 1975 that possibly could be affected by the case. In addition, \$10 million of taxes on coal production has been paid to Big Horn County. The State considers that it has meritorious defenses to the claims and intends to vigorously defend the action. It further estimates that a trial and possible appeals will take several years. If the Tribe should prevail the State Legislature could, upon a three-fourths vote of the members of each house, appropriate funds from the coal severance tax trust fund to pay any judgment in favor of the Tribe. The State believes there will be sufficient funds in said trust fund to pay any such judgment.

The Blackfeet Tribe of Indians sued in 1978 for a declaratory judgment that all taxes on production of oil and gas beneficially owned by the Tribe are invalid. The federal district court dismissed the complaint and the Tribe appealed to the Ninth Circuit Court of Appeals. In December 1982, the court of appeals upheld the judgment of the district court. The Tribe has petitioned for rehearing. The rehearing has been granted and will be heard before an eleven member panel in November, 1983. Various oil and gas producers have paid taxes amounting to approximately \$5 million under protest during the pendency of the case. The State believes that it has meritorious defenses to the claims.

The Department of Revenue is the defendant in a lawsuit brought by two savings and loan associations protesting the inclusion of interest income from federal obligations in the determination of net income for purposes of the Montana corporation license tax. On September 23, 1982, the Montana Supreme Court reversed a district court ruling and held that the inclusion of interest on federal obligations is not permissible under federal statutes. The Department of Revenue's Petition for Certiorari with the U.S. Supreme Court was denied June 20, 1983. However, Senate Bill 335, passed by the 1983 Legislature, resolved the issue in favor of the State, and made application retroactive. Administrative challenges to the constitutionality of the legislation have been filed and litigation is contemplated. The Department estimates that approximately \$8.6 million is at issue. Of such amount \$1.7 million would be from the State and \$6.9 million would be from local government units.

The State receives federal grants and entitlements for specific purposes which are subject to review and audit by the grantor agencies. Any disallowances as a result of these audits would become a liability of the State. As of June 30, 1983, the State estimates that no material liabilities will result from such audits.

10. LEASES

The State has entered into various capital and operating leases for land, buildings and equipment. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

Future minimum lease payments under the capital leases are as follows:

Fiscal Year Ending June 30	
1984	\$ 997,621
1985	690,617
1986	281,310
1987	107,813
1988	97,825
After 1988	<u>1,082,029</u>
Total minimum lease payments	<u>\$ 3,257,215</u>

Future rental payments for operating leases are as follows:

Fiscal Year Ending June 30	
1984	\$ 1,634,933
1985	1,204,225
1986	514,192
1987	346,227
1988	213,898
After 1988	83,330
Total future rental payments	\$ 3,996,805

The State Department of Administration was authorized to enter into a ten year interest bearing lease purchase contract, subject to biennial appropriation, for the purchase of a telephone system. The system was financed in September 1983 by the delivery of \$11,000,000 certificates of participation in the lease purchase contract.

11. SEGMENT INFORMATION

The State has two major enterprise operations—the Housing Authority and the Liquor Division of the Department of Revenue.

The Housing Authority provides financing to qualified individuals to purchase residential housing. In order to do so, the board issues bonds and carries federally insured mortgage notes.

The Liquor Division of the Department of Revenue administers the state liquor operations. In addition to selling liquor and wines, the division issues licenses and permits to wholesalers and retailers and collects taxes.

Selected financial information concerning these enterprises is as follows (expressed in thousands):

	Housing Authority(1)	Liquor Division
Operating Revenues	\$ 29,453	\$ 53,838
Depreciation	(*)	109
Operating Transfers In (Out)	0	(15,265)
Operating Income (Loss)	3,585	15,706
Net Property, Plant & Equip.		
Additions	8	56
Net Working Capital	(1,129)	6,650
Total Assets	359,297	13,161
Bonds Payable From Operating		
Revenues	331,806	0
Total Equity	21,636	8,512

(1) Source: Montana Board of Housing Financial Report, Fiscal Year 1983.

(*) Fixed assets are reported net of depreciation; no dollar amount is available.

12. SHORT-TERM DEBT

The Board of Examiners, upon recommendation by the Department of Administration, may issue notes in anticipation of the receipt of taxes and/or revenues as the legal demands on the treasury during any fiscal year make it necessary. No more than \$50 million may be outstanding at any point in time. The notes must be redeemed before June 30 of the fiscal year in which issued. No short-term notes may be issued to refund outstanding short-term notes. During fiscal year 1983, \$47 million principal amount of such notes were issued. These Tax and Revenue Anticipation Notes were redeemed on June 29, 1983.

13. COMMITMENTS

The State has major long-term commitments under unperformed contracts. As of June 30, 1983, material commitments were related to projects for state highway and building construction in the following amounts:

Department of Highways contracts	\$ 82,634,595
Department of Administration	
Architecture & Engineering Division contracts	\$ 18,978,907

14. FUND DEFICITS

Two funds have a deficit in fund equity as of June 30, 1983. The Capitol Land Grant Fund has a deficit of \$725,000. State statute has appropriated to a debt service fund an amount from the Capitol Land Grant Fund sufficient to pay the principal and interest on bonds issued to improve the state capitol. In fiscal year 1983, revenues were insufficient to meet this requirement. An interentity loan was granted from the General Fund to the Capitol Land Grant Fund. This loan was repaid in October 1983.

The fund equity deficiency in the Unemployment Insurance Fund is the result of borrowing from the Federal government. (See Note 15).

15. UNEMPLOYMENT COMPENSATION

Unemployment compensation benefits are funded in the State through unemployment compensation taxes levied against employers. The moneys collected from this tax are deposited in the Unemployment Insurance Clearing Account and subsequently transferred daily to a trust fund in Washington, D.C., the trustee of which is the United States Secretary of the Treasury. The moneys are then transferred back to the State on the basis of a weekly request by the Montana Department of Labor and Industry to pay benefits incurred in that week. The moneys then received are deposited in the Montana Unemployment Insurance Benefit Account and are disbursed as unemployment insurance benefit payments.

If the State trust fund is insufficient to meet demands, the State may borrow from the Federal trust fund. As of June 30, 1983, the State had borrowed approximately \$8.6 million from the Federal Unemployment Trust Fund. The Montana Department of Labor and Industry anticipates borrowing approximately \$18 million for the period January, 1984 through April, 1984. Legislation was passed by the 1983 Legislature to allow for payment of future interest expense.

16. REDUCTION IN VALUE OF LIVESTOCK

Livestock at the Prison Ranch is recorded at market value. The change in the market value of the livestock from year to year is the result of several factors including fluctuating market prices, change in the number of head of livestock, and changes in the animals' weight.

17. NONEXPENDABLE TRUST INVESTMENT INCOME

All investments are recorded in the nonexpendable trust fund type on the full accrual basis. However, investment earnings attributable to these trusts are recorded elsewhere, as summarized below:

<u>Nonexpendable Trust Funds</u>	<u>Reporting of Investment Earnings</u>
Permanent Coal Tax Trust	Investment earnings are reported in the General Fund.
Education Trust	Ten percent of investment earnings stay in the Education Trust Fund; 67.5% goes to the Office of Public Instruction for public schools and the remaining 22.5% goes to the Board of Regents for Higher Education, both in the State Special Revenue Fund.
Resource Indemnity Tax Trust	Investment earnings are recorded in a separate accounting entity (Resource Indemnity Trust Fund Interest) in the State Special Revenue Fund.
Parks, Cultural and Aesthetic Projects	Investment earnings are distributed two-thirds to the Department of Fish, Wildlife and Parks and one-third to the Historical Society, both in the State Special Revenue Fund.

, 1984

Board of Examiners
 State of Montana
 Capitol Station
 Helena, Montana 59620

Gentlemen:

We have examined a record of proceedings relating to the issuance of \$11,000,000* principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds").

The Bonds are authorized to be issued pursuant to MCA Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (collectively referred to as the "Enabling Act"), a General Resolution and a 1984 Series A Supplemental Resolution each adopted , 1984 (collectively referred to as the "Bond Resolution") of the Board of Examiners consisting of the Governor, Secretary of State and Attorney General, and other proceedings relating thereto. Capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed thereto in the Bond Resolution.

The Bonds are issued as fully registered bonds, are dated August 1, 1984, and will mature on December 1 in the following years, in the respective principal amounts, and will bear interest from August 1, 1984 (payable semiannually on the first days of June and December of each year, commencing December 1, 1984) at the respective rates per annum, set forth opposite such years in the following table:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
-------------	---------------	--------------------------

* Subject to change.

The Bonds are subject to redemption prior to maturity in whole or in part at such time or times, under such circumstances including the payment of sinking fund installments, at such redemption prices, and in such manner as set forth in the Bond Resolution. The Board has the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution.

The Bonds are issued to provide moneys with which to make loans to various local government units, political subdivisions and water users' associations in the state of Montana (the "State") to finance various water development projects.

We are of the opinion that:

(1) Under the Constitution and laws of the State the Enabling Act has been duly enacted, and the State, acting through the Board of Examiners, has the power (i) to become indebted by the issuance of the Bonds, (ii) to adopt the Bond Resolution, and (iii) to perform its obligations under the terms and conditions of the Bonds and the Bond Resolution.

(2) The Bond Resolution has been duly adopted by the Board of Examiners, is valid and binding upon the State, is enforceable in accordance with its terms and creates the valid pledge which it purports to create with respect to the Pledged Tax Revenues, the Pledged Project Revenues, the proceeds of the Bonds, and the contents of the Debt Service Reserve Account and the Surplus Project Revenue Account. All conditions precedent to the adoption of the Bond Resolution have been met and no other or further authorization for the Bond Resolution or the issuance of the Bonds is required.

(3) The Bonds are legal, valid and binding limited obligations of the State payable solely from Pledged Tax Revenues and Pledged Project Revenues, as defined in the Bond Resolution, and the proceeds of the Bonds, and are further secured by the amounts in the Debt Service Reserve Account and the Surplus Project Revenue Account.

(4) The adoption of the Bond Resolution and the issuance of the Bonds thereunder will not conflict with nor constitute a breach of or default under any law, regulation or agreement relating to indebtedness of the State to which the State is subject or is otherwise a party. There is no constitutional debt limit applicable to the Bonds, and the amount of Bonds issued is within the statutory limit therefor.

(5) Under existing laws, regulations, rulings and decisions, interest on the Bonds is exempt from federal income taxes.

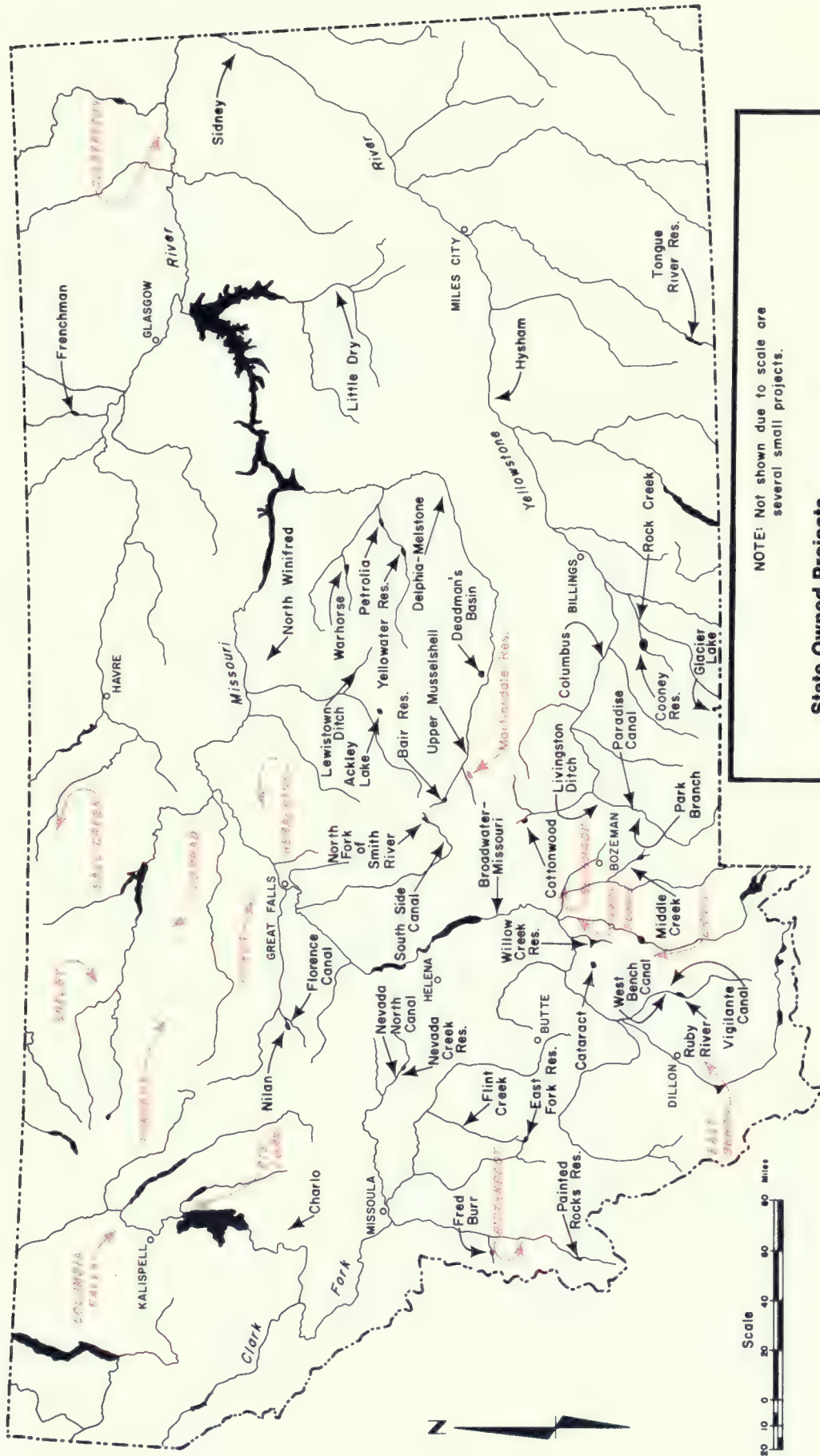
(6) Under existing Montana laws, interest on the Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

We have examined an executed Bond and in our opinion the form of said Bond and its execution are regular and proper.

In rendering this opinion, we advise you that the enforceability of rights and remedies with respect to such Bonds and the Bond Resolution may be limited by bankruptcy, insolvency or other laws heretofore or hereafter enacted affecting creditors' rights or remedies.

Very truly yours,

Montana Water Projects



NOTE: Not shown due to scale are several small projects.

State Owned Projects

Projects Financed with the 1984 Series Bonds

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No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof.

Information herein has been obtained from the State of Montana and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriters.

\$11,000,000* **State of Montana** **Coal Severance Tax Bonds** **Department of Natural** **Resources and Conservation** **Water Development Program** **1984 Series A**

OFFICIAL STATEMENT

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.

Dated August , 1984

* Subject to change.

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



TED SCHWINDEN, GOVERNOR

32 SOUTH EWING

STATE OF MONTANA

(406) 449-3712

HELENA, MONTANA 59620

August 1, 1984

Montana Board of Examiners
Montana Department of Administration
Sam W. Mitchell Building, Room 115
Capitol Station
Helena, Montana 59620

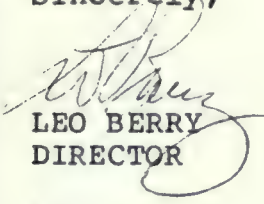
Re: State of Montana Coal Severance Tax Bonds, Department of
Natural Resources and Conservation Water Development Program,
1984 Series A

Gentlemen:

I hereby recommend that the Board of Examiners issue and sell \$10,485,000 in principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, on the terms set forth in the General Resolution dated August 1, 1984, the 1984 Series A Supplemental Resolution dated August 1, 1984, the Purchase Contract dated August 1, 1984, and the Official Statement dated August 1, 1984, all as presented to a meeting of the Board of Examiners on August 1, 1984.

The proceeds of the Bonds will be used to provide funds for the water development projects listed in the schedule attached to this letter.

Sincerely,


LEO BERRY
DIRECTOR

LB/nj

Attachment



PROJECTS FINANCED WITH THE 1984 SERIES A BONDS

Belgrade	\$940,000
Big Fork	\$250,000
The Bitterroot Irrigation District	\$1,180,000
Columbia Falls	\$200,000
Conrad	\$250,000
Culbertson	\$704,000
The East Bench Irrigation District	\$1,250,000
Ennis	\$180,000
Geraldine County Water District	\$1,733,200
Libby	\$590,500
The Martinsdale Project	\$250,000
Pondera Conservation District	\$555,000
Power-Teton Water & Sewer District	\$121,370
Sage Creek Water District	\$623,000
Shelby	\$592,000
Three Forks	\$435,000

EXTRACT OF MINUTES OF SPECIAL MEETING
OF THE STATE BOARD OF EXAMINERS HELD AUGUST 1, 1984

Pursuant to the due call and notice, a special meeting of the State Board of Examiners of the State of Montana was held in the Governor's Reception Room, State Capitol, Helena, Montana, on August 1, 1984, at 4:00 p.m.

The following members were present: Governor Ted Schwinden and Secretary of State Jim Waltermire; Attorney General Mike Greely was absent.


Secretary of State Jim Waltermire moved the adoption of the following resolutions as submitted to the meeting:

"Resolutions entitled 'State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, General Resolution' and 'State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A Supplemental Resolution'"

The motion was duly seconded by Governor Ted Schwinden, and upon vote being taken thereon, the following voted in favor thereof: Governor Ted Schwinden and Secretary of State Jim Waltermire; and the following voted against the same: none, whereupon the resolutions were declared passed and adopted.

I, Morris L. Brusett, being the duly appointed, qualified and acting Executive Secretary of the Board of Examiners of the State of Montana, certify that the foregoing is a full, true and compared copy of the minutes of the special meeting duly called and held by said Board on August 1, 1984, and that attached hereto is a copy of the General Resolution adopted by the Board as indicated in said minutes, entitled "State of Montana, Coal Severance Tax Bonds, General Resolution."

WITNESS my hand and the seal of the state Board of Examiners this 2nd day of August, 1984.



MORRIS L. BRUSETT
Executive Secretary
State Board of Examiners
State of Montana

STATE OF MONTANA
COAL SEVERANCE TAX BONDS

GENERAL RESOLUTION

Adopted: August 1, 1984

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STATE OF MONTANA
COAL SEVERANCE TAX BONDS

THE BOARD OF EXAMINERS OF THE STATE OF MONTANA HEREBY
RESOLVES AS FOLLOWS:

ARTICLE I

DEFINITIONS, CONSTRUCTION AND DETERMINATIONS

Section 1.01. Short Title. This Resolution is hereinafter sometimes referred to as the "General Resolution."

Section 1.02. Authority for General Resolution. This General Resolution is adopted by virtue of the Enabling Act and pursuant to and in accordance with its provisions for the purpose of establishing the terms of and providing for the sale and issuance of Coal Severance Tax Bonds in separate Series from time to time.

Section 1.03. Definitions. In this General Resolution, unless a different meaning clearly appears from the context:

"Account" or "Accounts" means one or more of the accounts created pursuant to this General Resolution or any Supplemental Resolution.

"Amortized Value", when used with respect to securities purchased at a premium above or a discount below par, means the value as of any given date obtained by dividing the total amount of the premium or the discount at which such securities were purchased by the number of days remaining to maturity of such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (i) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price and (ii) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

"Authorized Officer" means the Governor, the Secretary of State, or the Attorney General of the State, the Executive Secretary of the Board or any person designated as an Authorized Officer by resolution of the Board.

"Authorized Investments" mean and include any securities to the extent the same are at the time legal for investment of State funds.

"Authorized Newspaper" means not less than two newspapers or financial journals printed in the English language and customarily published on each business day in each calendar week, one of which is of general circulation in the City of Helena, Montana, and the other of which is of general circulation in the City of New York, New York.

"Board" means the board of examiners established by Section 2-15-1007, MCA, consisting of the Governor, the Secretary of State and the Attorney General.

"Board Request" means a resolution of the Board or a written request of the Board signed by an Authorized Officer.

"Bondholder," or "Holder," or "Holders of Bonds," or any similar term, when used with respect to a Bond or Bonds, means the registered owner of any registered Bond, and the bearer of any unregistered Bond or coupon.

"Bond Payment Date" means each date on which interest or both Principal Installments and interest shall be payable on any of the Bonds according to their respective terms.

"Bond Proceeds Account" means an account created in the State Special Revenue Fund in the State Treasury Fund Structure pursuant to MCA Section 17-5-710(5) and Section 5.03 of this General Resolution.

"Bond Registrar" means any bank, trust company or national banking association which has been authorized to act as a Bond Registrar by the Board, having the duties, responsibilities and rights provided for in this General Resolution.

"Bonds" means the notes, bonds, and other debt instruments issued from time to time in one or more series pursuant to the Enabling Act, any act authorizing the issuance of Bonds pursuant to the Enabling Act and this General Resolution.

"Certificate" means, as the case may be, either (i) a signed document attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (ii) a signed document setting forth matters to be determined by an Authorized Officer pursuant to this General Resolution.

"Coal Severance Tax" means the tax imposed by the State pursuant to MCA Section 15-35-103 as amended from time to time, or any other tax imposed on coal produced in the State in substitution for such tax.

"Coal Severance Tax Revenue" means the fifty percent of the proceeds of the Coal Severance Tax which are deposited in

the Coal Severance Tax Trust Fund pursuant to Article IX, Section 5 of the Montana Constitution and MCA Section 15-35-108(1).

"Coal Severance Tax Trust Fund" means the trust fund created in the State Treasury Fund Structure pursuant to Article IX, Section 5 of the Montana Constitution and MCA Section 15-35-108(1).

"Code" means the Internal Revenue Code of 1954, as amended, and the regulations promulgated thereunder.

"Costs of Issuance" mean the items of expense payable or reimbursable by the State and related to the authorization, sale and issuance of Bonds, which items of expense may include, without limitation, the costs of printing and reproducing bonds and documents; the costs of guarantees, letters of credit or other credit enhancement devices; filing and recording fees; line of credit fees; initial fees and charges of the Bond Registrar, Paying Agents and Escrow Agents; underwriters' discounts; legal fees and charges; professional consultants' fees; costs of credit ratings; fees and charges for the execution, transportation and safekeeping of Bonds; the cost of Bond insurance; the expenses of the refunding of Bonds; and other costs, charges and fees related to the foregoing.

"Counsel's Opinion" means an opinion by a firm of attorneys of recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

"Debt Service" means the Principal Installments, if any, and interest due on Outstanding Bonds of a Series on any Bond Payment Date or during any particular period of time.

"Debt Service Account" means an Account established in the Debt Service Fund in the State Treasury Fund Structure for a Series of Bonds pursuant to MCA Section 17-5-708 and Section 5.03 of this General Resolution.

"Debt Service Reserve Account" means the Account established in the Debt Service Fund in the State Treasury Fund Structure pursuant to Section 5.03 of this General Resolution.

"Debt Service Reserve Requirement" means, as of any date of calculation, an amount equal to the maximum annual Debt Service due on the Outstanding Bonds during that or any subsequent calendar year.

"Department" means the Department of Natural Resources and Conservation created by MCA Section 2-15-3301, or any other department or agency of the State authorized by statute to recommend the issuance of Bonds pursuant to this General Resolution.

"Enabling Act" means MCA Sections 17-5-701 through 17-5-719, as they may be amended from time to time.

"Escrow Agent" means any bank, trust company or national banking association having capital and surplus of at least \$10,000,000 which has been designated as an Escrow Agent by the Board pursuant to a Supplemental Resolution, and which has the duties, responsibilities and rights provided for in this General Resolution and such Supplemental Resolution.

"Fiduciary" means the Bond Registrar or a Paying Agent other than the State Treasurer.

"General Resolution" means this General Resolution, as it may hereafter be amended or supplemented by one or more Supplemental Resolutions.

"Government Obligations" means and includes direct general obligations of the United States of America or obligations on which the payment of principal and interest is, in the opinion of the Attorney General of the United States, fully and unconditionally guaranteed by the United States of America.

"Investment Income" means any income or interest earned by, or any increment to, the money in an Account as a result of the investment or deposit of such money.

"MCA" means the Montana Code Annotated.

"Outstanding", when used with respect to Bonds, means, as of any date, all Bonds theretofore authenticated and delivered under the General Resolution except:

(i) any Bond cancelled or delivered for cancellation on or before such date;

(ii) any Bond in lieu of or in exchange for which another Bond shall have been authenticated and delivered pursuant to Article II of this General Resolution; and

(iii) Bonds deemed to have been paid as provided in Section 10.04.

"Paying Agent" means the State Treasurer and any bank, trust company or national banking association having capital and surplus of at least \$10,000,000 authorized pursuant to a Supplemental Resolution to pay the principal or Redemption Price of or interest on any Bonds and having the duties, responsibilities and rights provided for in this General Resolution and such Supplemental Resolution, and its successor or successors and any other corporation or

association which at any time may be substituted in its place pursuant to this General Resolution. The term "Paying Agent" shall include any co-Paying Agent.

"Person" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

"Pledged Project Revenues" means any rents, fees, charges, loan repayments and other income received by the State with respect to a Project that have been pledged by any Supplemental Resolution for repayment of one or more Series of Bonds.

"Pledged Tax Revenues" means the Coal Severance Tax Revenues held in the Trust Fund Bond Account pursuant to Article IX, Section 5 of the Montana Constitution, MCA Sections 15-35-108(1), 17-5-703(2) and 17-5-704, and Section 5.04 of this General Resolution.

"Principal Installment" means, as of any date of calculation, (i) the principal amount of all Bonds due on such date with respect to which no Sinking Fund Installments have been provided, plus (ii) any Sinking Fund Installments due on such date.

"Project" means any project, activity or loan that the State Legislature has authorized to be financed by the issuance of Bonds pursuant to the Enabling Act, and which is so financed in accordance with this General Resolution and a Supplemental Resolution.

"Project Costs" means those costs of a Project which under a Supplemental Resolution are to be paid with the proceeds of the Series of Bonds authorized by that Supplemental Resolution.

"Record Date" means the date fifteen days before any Bond Payment Date.

"Redemption Price", when used with respect to a Bond or any portion thereof which is to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to this General Resolution and the applicable Supplemental Resolution.

"Refunding Bonds" means any Bonds authenticated in accordance with Section 2.16 of this General Resolution.

"Serial Bonds" means the Bonds of any Series so designated in a Supplemental Resolution.

"Series of Bonds" or "Bonds of a Series" means any series of Bonds authorized by a Supplemental Resolution.

"Sinking Fund Installment" means the amount of money required to be applied on any Bond Payment Date as the Redemption Price of Bonds of a particular Series prior to the maturity of such Bonds pursuant to the Supplemental Resolution pertaining to such Series.

"State" means the State of Montana.

"State Treasurer" means the director of the State Department of Administration, who serves as ex officio state treasurer pursuant to MCA Section 2-15-1002.

"State Treasury Fund Structure" means the funds and accounts created pursuant to MCA Section 17-2-102.

"Supplemental Resolution" means any Supplemental Resolution adopted by the Board in accordance with Article VIII hereof amending or supplementing this General Resolution, authorizing the issuance of any Series of Bonds, or amending or supplementing any other Supplemental Resolution.

"Surplus Project Revenue Account" means the Account established in the Debt Service Fund in the State Treasury Fund Structure pursuant to Section 5.03 of this General Resolution.

"Term Bonds" means the Bonds of any Series so designated in a Supplemental Resolution.

"Trust Fund Bond Account" means the Account established in the Coal Severance Tax Trust Fund pursuant to MCA Section 17-5-703(1)(a) and Section 5.03 of this General Resolution.

"Trust Fund Income Account" means the Account established in the Coal Severance Tax Trust Fund pursuant to MCA Section 17-5-703(1)(c) and Section 5.03 of this General Resolution.

"Trust Fund Permanent Account" means the Account established in the Coal Severance Tax Trust Fund pursuant to MCA Section 17-5-703(1)(b) and Section 5.03 of this General Resolution.

Section 1.04. Construction. In this General Resolution, unless the context otherwise requires:

(a) Articles and Sections referred to by number shall mean the corresponding Articles and Sections of this General Resolution.

(b) The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms refer to this General Resolution, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of adoption of this General Resolution.

(c) Words of the masculine gender shall mean and include correlative words of the female and neuter genders, and words importing the singular number shall mean and include the plural number and vice versa.

(d) Words importing persons shall include firms, associations, partnerships, trusts, corporations and other legal entities, including public bodies, as well as natural persons.

(e) Words importing the redemption of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of such Bond.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.01. Authorization of Bonds. In order to finance projects and activities authorized by the legislature, there are hereby authorized Bonds of the State to be known and designated as "State of Montana Coal Severance Tax Bonds" which may be issued in series from time to time as provided in this General Resolution. The Bonds shall be limited obligations of the State payable solely from Pledged Project Revenues and Pledged Tax Revenues and secured by the revenues, assets and moneys pledged to the payment thereof pursuant to this General Resolution.

Section 2.02. Provisions For Issuance of Bonds. The issuance of Bonds of a Series shall be by a Supplemental Resolution duly authorized by the Board and executed pursuant to this General Resolution. The Bonds may be issued in one or more Series, and the Bonds of each Series shall, in addition to the title "State of Montana Coal Severance Tax Bonds", contain an appropriate Series designation.

Section 2.03. Supplemental Resolutions. Each Supplemental Resolution authorizing the issuance of a Series of Bonds shall either specify or prescribe the manner of determining:

(a) The source of the Board's authority to issue the Bonds;

(b) The principal amount, or the issue price and face amount, of that Series of Bonds;

(c) The Pledged Project Revenues, if any, pledged for repayment of that Series of Bonds;

(d) The purpose or purposes for which such Series of Bonds are being issued;

(e) The interest payment dates, if any, the maturity date or dates, and the principal or face amounts of each maturity of that Series of Bonds;

(f) The interest rate or rates of the Bonds of that Series, or if the interest rates of any or all of the Bonds of that Series can vary from time to time, the manner in which the interest rates are to be established and the maximum rates of interest which such Bonds may bear at any time;

(g) The denomination or denominations of, and the manner of dating, numbering and lettering the Bonds of such Series;

(h) The Bond Registrar and Paying Agent or Paying Agents and the place or places of payment of the principal or Redemption Price of and interest on the Bonds of such Series;

(i) The form of the Bonds of such Series;

(j) If any of the Bonds of such Series can be tendered by and at the option of the Holder thereof for payment prior to their stated maturity, or if the maturities of any of the Bonds of such Series can be extended by and at the option of the Holder thereof, the terms and conditions of the exercise by Bondholders of such options;

(k) In the case of Bonds, if any, for which Sinking Fund Installments are to be provided, provision for Sinking Fund Installments payable on such dates and in such amounts which, together with the principal amounts remaining unpaid on the maturity date or dates thereof, will, in the aggregate, equal the aggregate principal amount of all of such Term Bonds of such Series;

(l) The Redemption Price or Redemption Prices, if any, and subject to Article III hereof, the time or times and the terms and conditions upon which the Bonds of such Series may be redeemed prior to their maturities, including without limitation the method of selection for redemption as among maturities;

(m) The names of the Accounts created pursuant to Section 5.03(b) of this General Resolution;

(n) The manner in which the proceeds of that Series of Bonds are to be allocated to and deposited in the Funds and Accounts created for that Series of Bonds by this General Resolution and the Supplemental Resolution;

(o) The amount of the Debt Service Reserve Requirement for that Series of Bonds;

(p) If any proceeds of a Series of Bonds are to be deposited in the Debt Service Account created for that Series of Bonds to pay capitalized interest on that Series of Bonds, a schedule setting forth the amount of such proceeds that is to be used to pay interest on that Series of Bonds on each Bond Payment Date;

(q) The manner in which amounts transferred out of the Debt Service Account created for that Series of Bonds on any December 31 pursuant to Section 5.06(d) of this General Resolution are to be treated;

(r) The circumstances, if any, in which amounts are to be transferred from the Debt Service Account created for that Series of Bonds to the Surplus Project Revenue Account.

(s) The manner in which investment income earned on money in the Bond Proceeds Account created for that Series of Bonds, on money in the Debt Service Account established for that Series of Bonds, and on Bond proceeds held in the Debt Service Reserve Account is to be treated;

(t) The manner in which the State Treasurer is to pay Project Costs;

(u) Any other provisions deemed advisable by the Board not in conflict with the provisions of this General Resolution.

Section 2.04. Medium of Payment; Form and Dates of Bonds; Place of Payment. (a) The Bonds shall be payable as to principal or Redemption Price and interest in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; provided, however, that the State may pay interest on registered Bonds by checks or drafts mailed to the persons entitled thereto, by wire transfer, or by any other means that may be customary and commercially acceptable on the date of payment.

(b) The Bonds shall be issued in the form of notes, coupon bonds payable to bearer, coupon bonds registered as to principal other than to bearer or fully registered bonds as specified in the Supplemental Resolution authorizing the issuance of such Bonds.

(c) Bonds bearing coupons or payable to bearer shall be dated as of and bear interest from the date specified in the Supplemental Resolution authorizing their issuance. Fully registered Bonds of each Series shall be dated as of the date six months preceding the first interest payment date next following the date of authentication thereof by the Bond Registrar, (i) unless such date of authentication shall be an interest payment date, in which case they shall be dated as of such date of authentication, (ii) unless such date of authentication is a date prior to the first interest payment date for such Series in which case they shall be dated as of the date set forth in the Supplemental Resolution for such

Series, or (iii) unless as shown by the records of the Bond Registrar, interest on the Bonds of such Series shall be in default, in which case the Bonds of such Series shall be dated as of the date to which interest has been paid in full on the Bond or Bonds surrendered in exchange for such Bond or Bonds. Fully registered Bonds of each Series shall bear interest from their date.

(d) Interest on the Bonds of each Series shall be payable, and the Bonds of each Series shall mature, on the date or dates required by the applicable Supplemental Resolution.

(e) The principal or Redemption Price of the Bonds and interest on all coupon Bonds shall be payable at the office of the State Treasurer or at the corporate trust office or offices of the Paying Agent or Paying Agents or such other office as may be designated in the respective Supplemental Resolution, upon the presentation and surrender for cancellation of such Bonds and coupons as the same shall become due and payable. Payment of the interest on each fully registered Bond shall be made to the person appearing on each Record Date on the registration books of the Bond Registrar (hereinafter provided for) as the registered owner thereof, by check or draft mailed to such registered owner at his address as it appears on such registration books.

Section 2.05. Execution and Authentication. (a) The Bonds shall be executed in the name and on behalf of the State by the manual or facsimile signatures of the Governor, the Secretary of State and the Attorney General as members of the Board, with the Great Seal of the State (or a facsimile thereof) impressed, imprinted or otherwise reproduced thereon. Coupons, if any, attached to such Bonds shall bear the facsimile signatures of the members of the Board. Bonds and coupons appertaining thereto bearing the manual or facsimile signature of any person who shall have been such a member of the Board at the time such Bonds or coupons were so executed shall bind the State notwithstanding the fact that he may have ceased to be a member of the Board prior to the authentication and delivery of such Bonds or was not such a member of the Board at the date of such Bonds.

(b) No Bonds or any coupons appertaining thereto shall be valid or obligatory for any purpose or shall be entitled to any right or benefit hereunder unless there shall be endorsed on such Bond a certificate of authentication in the form set forth in or fixed pursuant to the applicable Supplemental Resolution duly executed by the Bond Registrar by the manual signature of an authorized officer thereof, and such certificate of the Bond Registrar upon any Bond executed on behalf of the State shall be conclusive evidence that the Bond so authenticated has been duly issued hereunder and that the Holder thereof is entitled to the benefit of the General Resolution.

Section 2.06. Interchangeability of Bonds. Any Bond or Bonds may, at the option of the Holder thereof and upon surrender of such Bond or Bonds at the corporate trust office of the Bond Registrar, be exchanged for an equal aggregate principal amount of Bonds of the same Series, interest rate and maturity of any authorized denomination or denominations and of any authorized form. Registered Bonds must be accompanied by a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered Holder of such Bond or his duly authorized attorney, and coupon Bonds must have all unmatured coupons attached.

Section 2.07. Negotiability, Transfer and Registry. All the Bonds issued under this General Resolution shall be negotiable, subject to the provisions for registration and transfer contained in this General Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, the State shall maintain and keep, at the office of the Bond Registrar, books for the registration and transfer of Bonds, and upon presentation of Bonds for such purpose at such office, the State shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Bond Registrar may prescribe, any Bond. So long as any of the Bonds remain Outstanding, the State shall make all necessary provisions to permit the exchange of Bonds at the office of the Bond Registrar.

Section 2.08. Transfer and Registration of Coupon Bonds. (a) Title to any coupon Bonds, unless registered as to principal other than to bearer, and to any coupons, shall pass by delivery as negotiable instruments payable to bearer. Any coupon Bonds may be registered as to principal only on the books of the State maintained by the Bond Registrar for such purpose, upon presentation thereof at the office of the Bond Registrar, and such registration shall be noted on such Bond. After such registration no transfer thereof shall be valid unless made on such books by the registered Holder in person or by his attorney duly authorized in writing, and similarly noted on such Bond. Any such Bond thereafter may be discharged from registration by being in like manner transferred to bearer, after which it shall again become transferable by delivery. Thereafter such Bond may again, from time to time, be registered or discharged from registration in the same manner. Registration of any coupon Bond as to principal, however, shall not affect the negotiability by delivery of the coupons appertaining to such Bond, and every such coupon shall continue to pass by delivery and shall remain payable to bearer.

(b) As to any coupon Bond registered as to principal other than to bearer, the Person in whose name such bond shall be registered upon the books of the State may be deemed

and treated as the absolute owner thereof, whether such Bond shall be overdue or not, for all purposes, except for the purpose of receiving payment of coupons. Payment of, or on account of, the principal or Redemption Price of such Bond shall be made only to, or upon the order of, such registered Holder. All such payments shall be valid and effectual to satisfy and discharge the liability of the Board upon such Bond to the extent of the sum or sums so paid. Neither the State, the Bond Registrar, nor any Paying Agent shall be affected by any notice to the contrary.

(c) The State, the Bond Registrar and any Paying Agent may treat the bearer of any coupon as the absolute owner thereof, whether such coupon shall be overdue or not, for the purposes of receiving payment thereof and for all other purposes whatsoever, and unless the Bond is registered as to principal other than to bearer, may treat the bearer of any coupon Bond as the absolute owner thereof, whether such Bond shall be overdue or not, for the purpose of receiving payment of the principal or Redemption Price thereof and for all other purposes whatsoever. All such payments to any such bearer shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the State, the Bond Registrar, nor any Paying Agent shall be affected by any notice to the contrary.

Section 2.09. Transfer of Fully Registered Bonds. (a) Each fully registered Bond shall be transferable only upon the books of the State, which shall be kept for such purpose at the office of the Bond Registrar, by the Holder thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered Holder or his duly authorized attorney. Upon surrender for transfer of such fully registered Bond, the State shall execute and the Bond Registrar shall authenticate and deliver, in the name of the transferee, one or more new fully registered Bonds of the same Series, maturity, rate of interest and aggregate principal amount as the surrendered Bond.

(b) The State, the Bond Registrar and any Paying Agent may treat the Holder of any fully registered Bond as the absolute owner thereof, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price of and interest on such Bond and for all other purposes, and payment of the principal, Redemption Price and interest shall be made only to, or upon the order of, such registered Holder and shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the State, the Bond Registrar nor any Paying Agent shall be affected by any notice to the contrary.

Section 2.10. Regulations with Respect to Exchanges and Transfers. All fully registered Bonds surrendered in any exchanges or transfers shall forthwith be cancelled by the Bond Registrar. All coupon Bonds and the coupons appertaining to such Bonds surrendered in any such exchanges or transfers shall be retained in the possession of the Bond Registrar for the purpose of reissuance upon subsequent exchanges, and the Bond Registrar, prior to reissuance of any such coupon Bonds, shall detach therefrom and cancel all matured coupons. For every such exchange or transfer of Bonds, whether temporary or definitive, the State or the Bond Registrar shall make a charge sufficient to reimburse it or them for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the Holder requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The cost, if any, of preparing each new coupon Bond or registered Bond upon such exchange or transfer and any other expenses of the State or the Bond Registrar incurred in connection therewith shall be paid by the State. The State shall not be obligated to (i) issue, exchange or transfer any Bond of any Series during the period between any Record Date and the next succeeding interest payment date of the Bonds of such Series, (ii) issue, exchange or transfer any Bond during a period beginning at the opening of business fifteen (15) days next preceding any selection of Bonds to be redeemed and ending at the close of business on the date of the first publication of notice (or the mailing thereof if there is no publication) of such redemption, or (iii) transfer or exchange any Bonds called or being called for redemption in whole or in part.

Section 2.11. Mutilated, Destroyed, Lost and Stolen Bonds. (a) If any mutilated Bond or any Bond with a mutilated coupon appertaining thereto is surrendered to the Bond Registrar, or the Bond Registrar and the State receive evidence to their satisfaction of the destruction, loss or theft of any Bond or coupon, and there is delivered to the Bond Registrar and the State such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Bond Registrar or the State that such Bond or coupon has been acquired by a bona fide purchaser, the State shall execute, and upon request of the State Treasurer, the Bond Registrar shall authenticate and deliver, in exchange for any such mutilated Bond or Bond with mutilated coupon, or in lieu of any such destroyed, lost or stolen Bond, or in exchange for any such Bond to which such destroyed, lost or stolen coupon appertains (upon surrender of such Bond with all appertaining coupons not destroyed, lost or stolen), a new bond of like tenor and principal amount, bearing a number not contemporaneously Outstanding, with coupons corresponding to the coupons, if any, appertaining to such surrendered Bond or destroyed, lost or stolen Bond or to the Bond to which such destroyed, lost or

stolen coupon appertains. The Bond Registrar shall thereupon cancel any such mutilated Bond or coupon so surrendered.

Section 2.12. Cancellation of Bonds. The Bond Registrar shall destroy all Bonds and coupons surrendered to it for cancellation and shall deliver a certificate to that effect to the State. No such Bonds or coupons shall be deemed Outstanding under the General Resolution.

Section 2.13. Payments Due on Saturdays, Sundays and Holidays. In any case where the date of maturity of interest on or Principal Installments of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday or Sunday or shall be, at any place designated for payment, a legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest on or Principal Installments or Redemption Price of the Bonds need not be made on such date but may be made on the next succeeding business day that is not a Saturday, Sunday or a legal holiday or a day upon which banking institutions are authorized by law to close, with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

Section 2.14. Temporary and Definitive Bonds. (a) Until definitive Bonds of any Series are prepared, the State may execute, and upon Board Request the Bond Registrar shall authenticate and deliver, temporary Bonds in lieu of definitive Bonds. Such temporary Bonds may be typewritten, printed or otherwise reproduced, and shall be subject to the same provisions, limitations and conditions as definitive Bonds. The temporary Bonds shall be dated as of the date of such definitive Bonds, shall be in such denomination or denominations and shall be numbered as prepared and executed by the State, shall be substantially of the tenor of such definitive Bonds, but with such omissions, insertions and variations as the Board may in its discretion determine, may be issued with or without coupons, and may be issued in the form of a single Bond.

(b) After the issuance of temporary Bonds, if any, the State shall without unreasonable delay cause definitive Bonds of each Series to be prepared, executed and delivered to the Bond Registrar. The definitive Bonds of each Series shall be lithographed or printed on steel engraved borders or prepared in such other fashion as is acceptable in the investment banking business. Temporary Bonds shall be exchangeable for definitive Bonds upon surrender to the Bond Registrar of any such temporary Bond or Bonds (with all unmatured coupons, if any, attached), and upon such surrender the State shall execute and upon Board Request the Bond Registrar shall authenticate and deliver to the Holder of the temporary Bond or Bonds, in exchange therefor, a like principal amount of

definitive bonds in authorized denominations. Until so exchanged the temporary Bonds shall in all respects be entitled to the same benefits as definitive Bonds authenticated and issued pursuant to this General Resolution and the applicable Supplemental Resolution.

(c) Interest on temporary registered Bonds shall be paid to the registered Holder of such Bonds, when and as payable. Interest on temporary bearer Bonds or temporary Bonds registered as to principal only shall be paid to the bearer thereof upon presentation and surrender of the coupons therefor attached thereto or, if no coupons shall be so attached, upon presentation of such temporary Bonds for notation thereon of the payment of such interest.

(d) All temporary Bonds surrendered in exchange for definitive Bonds shall forthwith be cancelled by the Bond Registrar.

Section 2.15. Conditions Precedent to Issuance of Bonds. Except as provided in Sections 2.06, 2.10, 2.11 and 2.16 the Bond Registrar shall authenticate and deliver to or upon the order of the State, Bonds of a Series authorized to be issued pursuant to this General Resolution and a Supplemental Resolution only upon delivery to the Bond Registrar of:

(a) a copy of this General Resolution and the applicable Supplemental Resolution, each certified by an Authorized Officer of the Board; provided, however, that a certified copy of this General Resolution need only be delivered to the Bond Registrar upon the delivery of the initial Series of Bonds under this General Resolution;

(b) a written order of the Board to the Bond Registrar, signed by an Authorized Officer of the Board, describing the Bonds to be authenticated and delivered and designating the purchaser or purchasers to whom such Bonds are to be delivered;

(c) a Counsel's Opinion to the effect that this General Resolution and the Supplemental Resolution authorizing the Series of Bonds have been duly and lawfully adopted by the Board; that this General Resolution and such Supplemental Resolution are valid, binding, in full force and effect and enforceable in accordance with their terms, subject to State and federal laws affecting the enforcement of creditors' rights generally, and that no other authorization for this General Resolution or such Supplemental Resolution is required; that this General Resolution and such Supplemental Resolution create the valid lien or

pledge that they purport to create; and that the Bonds of such Series have been duly and validly authorized and issued and constitute valid and binding limited obligations of the State, enforceable in accordance with their terms and the terms of this General Resolution and such Supplemental Resolution, subject to State and federal laws affecting the enforcement of creditors' rights generally, and are entitled to the benefits of this General Resolution and such Supplemental Resolution and the Enabling Act, as amended to the date of such opinion;

(d) a Certificate of an Authorized Officer taking into account the issuance of the Bonds demonstrating compliance with Section 6.05;

(e) A Certificate of an Authorized Officer stating that the Debt Service Reserve Account contains an amount not less than the Debt Service Reserve Requirement, calculated as if the Bonds to be issued on that date were already Outstanding, or that transfers and deposits have been irrevocably authorized in amounts sufficient to make the Debt Service Reserve Account contain an amount not less than the Debt Service Reserve Requirement, calculated as if the Bonds to be issued on that date were already Outstanding.

(f) A Certificate of an Authorized Officer stating that, upon the issuance of that Series of Bonds, no event of default hereunder nor an event which with notice or lapse of time or both would become an event of default hereunder has occurred and is continuing; and

(g) such further documents and moneys as may be required by the provisions of the Supplemental Resolution.

Section 2.16. Conditions Precedent to Issuance of Refunding Bonds. The Bond Registrar shall authenticate each Series of Refunding Bonds and deliver such Bonds to the State or upon its order only upon the receipt by the Bond Registrar of:

(a) the documents referred to in paragraphs (a), (b), (c), (e) and (f) of Section 2.15;

(b) irrevocable instructions to an Escrow Agent, to pay when due or to redeem all the Bonds to be refunded on such date or dates specified in such instructions;

(c) either (i) moneys in an amount sufficient to effect payment of the principal amount or the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date or maturity date, as the case may be, which moneys shall be held by the Escrow Agent or the Paying Agent in a separate account irrevocably in trust for and assigned to the respective holders of the Bonds to be refunded, or (ii) Government Obligations, the principal of and interest on which, together with the moneys, if any, deposited with the Escrow Agent or the Paying Agent at such time, will be sufficient to pay when due the principal amount or the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date or maturity date, as the case may be, which Government Obligations and moneys shall be held by the Escrow Agent or the Paying Agent pursuant to Section 11.03; and

(d) such further documents and moneys as may be required by the Supplemental Resolutions applicable to such refunding Bonds and the Bonds being refunded.

ARTICLE III

REDEMPTION AND PURCHASE OF BONDS

Section 3.01. Authorization of Redemption. All or part of the Bonds of any Series may be subject to redemption prior to maturity pursuant to a Supplemental Resolution and this Article III, at the option of the Board, by Sinking Fund Installments, or in any other manner permitted by the applicable Supplemental Resolution, upon the terms and at the times and Redemption Prices specified in the Supplemental Resolution authorizing such Series of Bonds.

Section 3.02. Optional Redemption. (a) If the Board elects pursuant to the provisions of a Supplemental Resolution to redeem all or part of a Series of Bonds prior to maturity, it shall by Board Request specify the date fixed for such redemption, the aggregate principal amount of Bonds of each maturity to be redeemed, the money that the State Treasurer is to use to redeem such Bonds, and if Sinking Fund Installments have been established for any of such Bonds, the principal amounts to be credited towards each of such Sinking Fund Installments. The portion of any Sinking Fund Installment remaining after deduction of the amounts credited towards it pursuant to such Board Request shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculating Sinking Fund Installments due on a future date.

(b) The Board shall notify the appropriate Bond Registrar of an optional redemption made pursuant to this Section by delivering a copy of the Board Request adopted pursuant to this Section to such Bond Registrar at least sixty days prior to the date fixed for redemption, or such lesser number of days as shall be acceptable to the Bond Registrar.

Section 3.03. Redemption by Sinking Fund Installments. (a) As soon as practicable after the forty-fifth day preceding the due date of any Sinking Fund Installment, the Bond Registrar shall call for Redemption, on such due date, Bonds of the Series and maturity for which such Sinking Fund Installment was established, in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Installment.

(b) During the year prior to the due date of any Sinking Fund Installment the State Treasurer may, when permitted by the applicable Supplemental Resolution, prior to the forty-fifth day preceding the due date of such Sinking Fund Installment:

(i) Redeem Bonds of the Series and maturity for which such Sinking Fund Installment was established; or

(ii) Purchase Bonds of the Series and maturity for which such Sinking Fund Installment was established, such purchases to be made in a manner determined by the State Treasurer.

The principal amount of the Bonds of any Series so redeemed and purchased shall not exceed the unsatisfied balance of such Sinking Fund Installment, and shall be credited against such Sinking Fund Installment.

Section 3.04. Selection of Bonds to be Redeemed. (a) If less than all of the Bonds of like maturity of any Series are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected, not more than 45 days prior to the date fixed for redemption, by the Bond Registrar in the manner required by the applicable Supplemental Resolution or, if not so required, at random in such manner as the Bond Registrar in its discretion may deem fair and appropriate.

(b) In making such selection, the Bond Registrar shall treat each Bond that is subject to redemption as representing that number of Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of such Bond by such denomination. If any Bond is to be redeemed in part, the principal amount to be so redeemed shall be in an authorized denomination.

(c) The Bond Registrar shall promptly notify the Board in writing of the Bonds so selected for redemption.

Section 3.05. Partial Redemption of Bonds. In case part but not all of a Bond shall be selected for redemption, upon presentation and surrender of such Bond to the Bond Registrar by the Holder thereof or his attorney duly authorized in writing (with, if the Board or the Bond Registrar so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Board and the Bond Registrar duly executed by, the Holder thereof or his attorney duly authorized in writing), the Board shall execute and the Bond Registrar shall authenticate and deliver to or upon the order of such Holder, without charge therefor, a Bond or Bonds of like tenor and of any authorized denomination or denominations requested by such Bondholder or such attorney, in exchange for the unredeemed portion of the principal amount of the Bond so surrendered. Bonds so presented and surrendered shall be cancelled in accordance with Section 2.12.

Section 3.06. Unpaid Coupons. All unpaid coupons which appertain to coupon Bonds called for redemption and which shall have become due and payable on or prior to the date of

redemption designated in such notice shall continue to be payable to the bearers thereof upon the presentation and surrender of such coupons.

Section 3.07. Notice of Redemption. (a) When any Bonds are to be redeemed the Bond Registrar shall give notice of such redemption to the Holders of such Bonds in the name of the State. Such notice shall specify (i) the Series and maturity dates of the Bonds to be redeemed; (ii) the redemption date; (iii) the Redemption Price; (iv) the numbers and other distinguishing marks of the Bonds to be redeemed (except in the event that all of the Outstanding Bonds of any Series are to be redeemed); (v) the place or places where amounts due upon such redemption will be payable; and (vi) in the case of Bonds to be redeemed in part only, the respective portions of the principal thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, together with interest accrued to the redemption date, and that interest thereon shall cease to accrue after such date. The Bond Registrar shall mail a copy of such notice, postage prepaid, not less than 30 days nor more than 60 days before the redemption date, to the Holders of any registered Bonds or portions of registered Bonds which are to be redeemed at their last addresses appearing upon the registration books, and if any of the Bonds to be redeemed are not fully registered, shall also publish such notice once a week for at least two successive weeks in Authorized Newspapers, the first such publication to be not less than 30 days nor more than sixty days prior to the redemption date.

(b) Notice of redemption having been given as provided in subsection (a) hereof, the Bonds or portions thereof so to be redeemed shall, on the date fixed for redemption, become due and payable at the Redemption Price specified in the notice plus accrued interest, shall cease to bear interest, shall no longer be considered as Outstanding hereunder, and the coupons for interest appertaining thereto payable subsequent to the redemption date shall be void.

Section 3.08. Purchase in Lieu of Redemption. The Board may by Board Request authorize the State Treasurer to purchase Bonds of any Series and maturity in lieu of redeeming such Bonds. Such Board Request shall specify the funds to be used to purchase such Bonds. Such purchases shall be made in such manner as the State Treasurer shall determine, subject to the restrictions of Section 3.09 of this General Resolution, at any time prior to the publication by the Bond Registrar of a notice of redemption pursuant to Section 3.07 of this General Resolution.

Section 3.09. Restrictions on Purchase and Redemption of Bonds. The Board shall not purchase or redeem or direct the purchase or redemption by the State Treasurer of any

Bonds at a cost or price (including any brokerage fee or commission and other charges) which (i) exceeds the then applicable Redemption Price of such Bonds, plus accrued interest to the redemption date, if such Bonds are then redeemable; or (ii) exceeds the Redemption Price of such Bonds on the date such Bonds are first redeemable at the option of the Board, plus accrued interest to the date of purchase or redemption.

ARTICLE IV
APPLICATION OF BOND PROCEEDS

Section 4.01. Application of Bond Proceeds. The proceeds of the sale and delivery of the Bonds of a Series shall, except as provided in Section 4.02, be applied as follows:

(a) The amount, if any, received upon the delivery of the Bonds of that Series as accrued interest or premiums shall be deposited in the Debt Service Account established for that Series of Bonds;

(b) The amount, if any, that the Supplemental Resolution applicable to that Series of Bonds requires to be deposited in the Debt Service Account established for that Series of Bonds to pay capitalized interest on Bonds of that Series shall be deposited in such Account;

(c) The amount, if any, that the Supplemental Resolution applicable to that Series of Bonds requires to be deposited in the Debt Service Reserve Account shall be deposited in such Account;

(d) The amount, if any, that the Supplemental Resolution applicable to that Series of Bonds requires to be deposited in the Bond Proceeds Account established for that Series of Bonds to pay Costs of Issuance shall be deposited in such Account;

(e) The balance of the proceeds of that Series of Bonds shall be deposited in the Bond Proceeds Account established for that Series of Bonds to pay Project Costs.

Section 4.02. Application of Refunding Proceeds. The amount, if any, received upon delivery of the Bonds of a Series as proceeds attributable to Refunding Bonds, constituting all or part of the Bonds of such Series, shall be applied as provided in the Supplemental Resolution applicable to such refunding Bonds.

ARTICLE V
PLEDGE, FUNDS AND ACCOUNTS

Section 5.01. Pledge. (a) To secure payment of the principal of, premium if any and interest on the Bonds according to their tenor and effect and the provisions contained in this General Resolution, and in consideration of the purchase of the Bonds by the Holders thereof, the State hereby grants the Bondholders a security interest in and pledges and confirms to the Bondholders the following revenues, assets and moneys:

- (i) all Pledged Tax Revenues;
- (ii) all amounts in the Surplus Project Revenue Account;
- (ii) all amounts in the Debt Service Reserve Account; and
- (iv) any Pledged Project Revenues, bond proceeds or other revenues, assets, money or property which may hereafter by Supplemental Resolution or otherwise be conveyed, pledged, assigned or transferred as and for additional security for all Series of Bonds issued under this General Resolution.

(b) Pledged Project Revenues can be pledged solely for payment of one or more Series of Bonds, and nothing contained in this General Resolution requires any Pledged Project Revenues to be pledged for payment of all Series of Bonds.

(c) Investment Income earned on the amounts in any Account created pursuant to this General Resolution or any Supplemental Resolution is not pledged for payment of the bonds unless this General Resolution or any Supplemental Resolution provides otherwise.

(d) This pledge is valid and binding from the date of this General Resolution, and all revenues, assets and moneys so pledged and hereafter received by the State shall immediately be subject to the lien thereof and the security interest created thereby, it being the intention of the State that such lien and security interest shall be valid and binding against all parties having claims of any kind, in tort, contract or otherwise, against the State.

(e) Pursuant to MCA Section 17-5-709, the Board hereby undertakes on behalf of the State as follows:

the legislature shall provide for the continued assessment, levy, collection, and deposit into the coal severance tax bond fund of the coal severance tax which, together with such other revenues,

assets, and money as may be deposited to one or more special bond funds pledged for the benefit of coal severance tax bonds, will be sufficient to produce an amount that is at least the amount necessary to pay, when due, the annual debt service charges on all outstanding coal severance tax bonds.

Section 5.02. Resolution Constitutes Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued pursuant to this General Resolution by those who shall hold the same from time to time, (i) this General Resolution shall be deemed to be and shall constitute a contract between the State and the Holders from time to time of the Bonds, and (ii) the pledge made in this General Resolution and the covenants set forth herein which are to be performed by the State shall be for the equal and proportionate benefit, protection and security of the Holders from time to time of all the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank, without any preference, priority or distinction of any one Bond over any other except as expressly provided herein; provided, however, that if the State shall pay or cause to be paid the principal or Redemption Price (if applicable) of and interest on the Bonds at the times and in the manner provided herein and in the Bonds, or shall provide, as permitted by Section 10.04 of this General Resolution, for the payment thereof by depositing with an Escrow Agent moneys or certain securities sufficient for that purpose, and shall keep, perform and observe all the covenants and conditions set forth in this General Resolution, and shall pay or cause to be paid all sums of money due or to become due to any of the Bondholders in accordance with the terms and provisions hereof, then this General Resolution and the rights and interest granted by it shall cease, terminate and be void.

Section 5.03. Establishment of Funds and Accounts. (a) The State Treasurer has created or shall create the following accounts for the Bonds issued pursuant to this General Resolution:

- (i) A Trust Fund Bond Account;
- (ii) A Trust Fund Permanent Account;
- (iii) A Trust Fund Income Account;
- (iv) A Debt Service Reserve Account; and
- (v) A Surplus Project Revenue Account.

(b) The State Treasurer shall also create the following special accounts for each Series of Bonds:

(i) A Debt Service Account; and

(ii) A Bond Proceeds Account;

Provided, however, that nothing contained in this General Resolution prevents a Supplemental Resolution from requiring or permitting two or more Series of Bonds to be paid from and secured by the same Debt Service Account.

Section 5.04. Trust Fund Bond Account. (a) The State Treasurer shall deposit the Coal Severance Tax Revenues into the Trust Fund Bond Account.

(b) Immediately after depositing the proceeds of a Series of Bonds into the Accounts required by Section 4.01 of this General Resolution, the State Treasurer shall transfer from the Trust Fund Bond Account to the Debt Service Reserve Account an amount sufficient to make the amount in the Debt Service Reserve Account be equal to the Debt Service Reserve Requirement.

(c) On each Bond Payment Date the State Treasurer shall transfer the amounts required by Section 5.06 (b)(ii) of this General Resolution from the Trust Fund Bond Account to the Debt Service Accounts created for the various Series of Bonds.

(d) On June 30 and December 31 of each year the State Treasurer shall make the following transfers:

(i) First, the State Treasurer shall transfer from the Trust Fund Bond Account to the Debt Service Reserve Account an amount sufficient to make the amount in the Debt Service Reserve Account be equal to the sum of the Debt Service Reserve Requirements;

(ii) Second, the State Treasurer shall transfer all amounts remaining in the Trust Fund Bond Account to the Trust Fund Permanent Account.

(e) If on any Bond Payment Date any amount is transferred from the Bond Proceeds Account created for a Series of Bonds to the Debt Service Account created for that Series of Bonds to pay Debt Service on that Series of Bonds, then the next Coal Severance Tax Revenues deposited in the Trust Fund Bond Account shall immediately be transferred to such Bond Proceeds Account until the amount removed from such Bond Proceeds Account to pay Debt Service has been replaced.

Section 5.05. Bond Proceeds Accounts. (a) The State Treasurer shall pay the Project Costs financed by a Series of Bonds by disbursing the money deposited in the Bond Proceeds Account created for that Series of Bonds in the manner required by the applicable Supplemental Resolution.

(b) The Supplemental Resolution applicable to a Series of Bonds may provide for the deposit of any proceeds of that Series of Bonds into the Bond Proceeds Account created for that Series of Bonds to be used to pay the Costs of Issuance of that Series of Bonds. The State Treasurer shall provide for each disbursement from such Bond Proceeds Account to pay such Costs of Issuance upon being furnished with a Department request stating (i) the name of the payee, (ii) the amount of payment, (iii) that the disbursement is for a proper Cost of Issuance, (iv) that none of the items for which payment is to be made has been the basis for any prior disbursement from such Bond Proceeds Account, and (v) that the amount so requested to be disbursed, together with all other amounts previously disbursed from such Bond Proceeds Account to pay Costs of Issuance of that Series of Bonds, does not exceed the amount deposited in such Bond Proceeds Account from the proceeds of such Series of Bonds to pay Costs of Issuance. In the event that the amounts deposited in such Bond Proceeds Account are not sufficient to pay all such Costs of Issuance, then such Costs of Issuance may be paid from any available funds of the Department.

(c) When required by Section 5.06 of this General Resolution, money can be transferred from the Bond Proceeds Account created for a Series of Bonds to the Debt Service Account created for that Series of Bonds to pay Debt Service on that Series of Bonds.

(d) Any money remaining in a Bond Proceeds Account created for a Series of Bonds after completion of the Projects financed by that Series of Bonds shall be transferred to the Debt Service Account created for that Series of Bonds and used to redeem Outstanding Bonds of that Series, or to pay the principal and interest on Outstanding Bonds of that Series as it becomes due and payable if the Board receives a Counsel's Opinion that such payment will not adversely effect the exemption of the interest on such Bonds from federal income taxation.

Section 5.06. Debt Service Accounts. (a) The State Treasurer shall deposit the Pledged Project Revenues from each Project into the Debt Service Account created for the Series of Bonds issued to finance such Project as such Pledged Project Revenues are received.

(b) On or before each Bond Payment Date the State Treasurer shall pay to the Paying Agent for each Series of Bonds an amount equal to the Principal Installments, if any, and interest due on the Outstanding Bonds of that Series on that Bond Payment Date by transferring amounts from the following accounts and in the following order until such amount has been paid in full:

(i) First, the amounts in the Debt Service Account created for that Series of Bonds (other than amounts held to pay capitalized interest on future Bond Payment Dates pursuant to Section 5.06(c) of this General Resolution) shall be applied to such payment, to the extent that they are needed;

(ii) Second, the amounts in the Surplus Project Revenue Account shall be transferred, to the extent that they are needed, to the Debt Service Account created for that Series of Bonds and applied to such payment;

(iii) Third, the amounts in the Trust Fund Bond Account shall be transferred, to the extent that they are needed, to the Debt Service Account created for that Series of Bonds and applied to such payment;

(iv) Fourth, the amounts in the Debt Service Reserve Account shall be transferred, to the extent that they are needed, to the Debt Service Account created for that Series of Bonds and applied to such payment;

(v) Fifth, the amounts in the Bond Proceeds Account created for that Series of Bonds shall be transferred, to the extent that they are needed, to the Debt Service Account created for that Series of Bonds and applied to such payment.

The Paying Agent shall use the amounts paid to it on or before a Bond Payment Date pursuant to this subsection to pay the Debt Service due on that Bond Payment Date.

(c) If the Supplemental Resolution applicable to a Series of Bonds requires any of the proceeds of that Series of Bonds to be deposited in the Debt Service Account created for that Series of Bonds to pay capitalized interest, the State Treasurer shall hold and apply such proceeds in the manner required by such Supplemental Resolution until all such proceeds have been applied.

(d) If on any December 31 a Debt Service Account created for a Series of Bonds contains an amount (other than amounts held to pay capitalized interest pursuant to Section 5.06(c) of this General Resolution) in excess of one-twelfth of the Debt Service due on that Series of Bonds during the next year, then such excess shall be transferred from such Account to any account in the State Treasury Fund Structure required by the applicable Supplemental Resolution.

(e) On or before the date of redemption or purchase of part or all of the Bonds of any Series pursuant to Section 3.02 or 3.03(b) of this General Resolution, the State Treasurer shall transfer all amounts which are to be used to redeem such Bonds to the Debt Service Account created for

that Series of Bonds, and shall pay to the Paying Agent for that Series of Bonds an amount equal to the purchase price or Redemption Price and accrued interest on such Bonds. Such Paying Agent shall apply such money to the purchase or redemption of such Bonds.

Section 5.07. Surplus Project Revenue Account. (a) When required by any Supplemental Resolution the State Treasurer shall deposit amounts into the Surplus Project Revenue Account. The amounts in the Surplus Project Revenue Account are pledged for payment of all Series of Bonds.

(b) On each Bond Payment Date the State Treasurer shall transfer the amounts required by Section 5.06(b)(ii) of this General Resolution from the Surplus Project Revenue Account to the Debt Service Accounts created for the various Series of Bonds.

(c) If on any December 31 the amount in the Surplus Project Revenue Account, together with the sum of the amounts remaining in the various Debt Service Accounts after the transfers required by Section 5.06(d) have been made, exceeds one-twelfth of the Debt Service due on all outstanding Bonds during the next year, then such excess shall be transferred from the Surplus Project Revenue Account to any account in the State Treasury Fund Structure required by the Supplemental Resolution.

Section 5.08. Debt Service Reserve Account. (a) Immediately after the proceeds of a Series of Bonds have been deposited into the Accounts required by Section 4.01 of this General Resolution, a sufficient amount shall, as required by Section 5.04(b) of this General Resolution, be transferred from the Trust Fund Bond Account to the Debt Service Reserve Account to make the amount in the Debt Service Reserve Account be equal to the Debt Service Reserve Requirement, calculated as if the Bonds issued on that date were already Outstanding.

(b) When required by Section 5.06(b)(iii) of this General Resolution, amounts shall be transferred from the Debt Service Reserve Account to the Debt Service Account created for a Series of Bonds to pay Debt Service on that Series of Bonds. All withdrawals from the Debt Service Reserve Account shall be made first from the Coal Severance Tax Revenues in such Account, and then from the Bond Proceeds in such Accounts.

(c) On June 30 and December 31 of each year a sufficient amount shall, as required by Section 5.04(d)(i) of this General Resolution, be transferred from the Trust Fund Bond Account to the Debt Service Reserve Account to make the amount in the Debt Service Reserve Account be equal to the Debt Service Reserve Requirement.

(d) If on any June 30 or December 31 the amount in the Debt Service Reserve Account exceeds the Debt Service Reserve Requirement, the amount of such excess shall be transferred from the Debt Service Reserve Account to the Trust Fund Bond Account.

Section 5.09. Investments, Deposits and Income. (a) Moneys in the Accounts held by the State Treasurer shall be invested or deposited upon written direction of an Authorized Officer in Authorized Investments the maturity or redemption date of which shall coincide as nearly as practicable with the times at which the moneys in such Accounts will be required for the purposes provided in this General Resolution.

(b) Authorized Investments held by the State Treasurer in any Account under the provisions of this General Resolution shall be deemed at all times to be a part of such Account and any loss on an Authorized Investment shall be charged to such Account, but any Investment Income to an Account due to any such Authorized Investments shall be treated as follows:

(i) Any Investment Income earned on amounts in the Trust Fund Bond Account shall be transferred to such other accounts as may be required by law;

(ii) Any Investment Income earned on Coal Severance Tax Revenues held in the Debt Service Reserve Account shall be transferred to the Trust Fund Income Account.

(iii) Any Investment Income earned on Bond Proceeds held in the Debt Service Reserve Account shall be treated in the manner required by the applicable Supplemental Resolution.

(iv) Any Investment Income earned on amounts held in the Surplus Project Revenue Account shall be retained in such account and treated in the same manner as other amounts in such account.

(v) Any Investment Income earned on amounts held in a Debt Service Account established for a Series of Bonds shall be treated in the manner required by the applicable Supplemental Resolution.

(vi) Any Investment Income earned on amounts in a Bond Proceeds Account established for a Series of Bonds shall be treated in the manner required by the Applicable Supplemental Resolution.

(c) In computing the amount in any Account under the provisions of this General Resolution, excepting the Debt Service Reserve Account, Authorized Investments therein shall be valued at the lower of cost or market price, exclusive of accrued interest. In computing the amount in the Debt Service Reserve Account, Authorized Investments therein shall be valued at par if purchased at par, or if purchased at other than par, at their Amortized Value.

ARTICLE VI

COVENANTS OF THE BOARD

Section 6.01. Payment of Bonds. The State shall duly and punctually pay or cause to be paid the principal or Redemption Price of every Bond and the interest thereon at the dates and places and in the manner mentioned in the Bonds according to the true intent and meaning thereof and shall duly pay or cause to be paid the Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds.

Section 6.02. Extension of Payment of Bonds and Coupons. The Board shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the coupons or claims for interest on any of the Bonds by the purchase or refunding of such Bonds, coupons or claims for interest or by any other arrangement. In case the maturity of any Bonds or the time for payment of any coupons or claims for interest shall be extended, such Bonds, coupons or claims for interest shall not be entitled, in case of any default under this General Resolution, to the benefit of this General Resolution or to any payment out of the Pledged Project Revenues, Pledged Tax Revenues or Accounts established by this General Resolution, including Authorized Investments, if any, pledged under this General Resolution or the moneys (except moneys held in trust for the payment of particular Bonds, coupons or claims for interest pursuant to this General Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended coupons or claims for interest. Nothing herein shall be deemed to limit the right of the Board to issue Refunding Bonds and such issuance shall not constitute an extension of the maturity of Bonds.

Section 6.03. Further Assurances. At any and all times the Board shall, so far as it may be authorized by law, make, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, pledged revenues and other moneys, securities and property, and all rights therein, hereby pledged or assigned, or intended so to be, or which the State may become bound to pledge or assign.

Section 6.04. Power to Issue Bonds and Pledge Revenues and Other Funds. Prior to the issuance of any Bonds the Board will be duly authorized under all applicable laws to issue the Bonds and to adopt this General Resolution and to pledge the taxes, revenues, assets and moneys purported to be

pledged by this General Resolution in the manner and to the extent provided in this General Resolution. The revenues, assets and moneys so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this General Resolution and all action on the part of the Board to that end has been and will be duly and validly taken. The Bonds and the provisions of this General Resolution are and will be the valid and legally enforceable obligations of the Board in accordance with their terms and the terms of this General Resolution. The Board shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the revenues, assets and moneys pledged under this General Resolution and all the rights of the Bondholders under this General Resolution against all claims and demands of all persons whomsoever.

Section 6.05. Issuance of Additional Bonds. The Board agrees that the State shall not issue any additional Bonds secured by or payable from Pledged Tax Revenues other than Bonds equally and ratably secured by such Pledged Tax Revenues and Bonds with a junior or inferior lien on such Pledged Tax Revenues, and will issue such additional Bonds only if during the three fiscal years preceding the issuance of such additional Bonds the average amount of Coal Severance Tax Revenues received annually by the State and deposited into the Coal Severance Tax Trust Fund is at least twice the maximum annual Debt Service on such additional Bonds and all Outstanding Bonds.

Section 6.06. Accounts and Reports. The State Treasurer shall keep or cause to be kept proper books and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions and the Accounts established by this General Resolution. Such books and such Accounts shall be subject to the inspection of the Bondholders holding an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

Section 6.07. Tax Covenants. (a) When Bonds are issued as tax-exempt Bonds, the Board: (i) shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on such Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation;

(ii) shall not permit at any time or times any of the proceeds of such Bonds or any other funds of the Board to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any such Bond to be an "arbitrage bond" as defined in Section 103 of the Code; and

(iii) shall not permit at any time or times any proceeds of any such Bonds or any other funds of the State to be used, directly or indirectly, in a manner which would result in the exclusion of any such Bond from the treatment afforded by subsection (a) of Section 103 of the Code, as from time to time amended, by reason of the classification of such Bond as an "industrial development bond" within the meaning of subsection (b) of said Section.

Section 6.08. Office for Servicing Bonds. The Board shall at all times maintain one or more Paying Agents in the State where Bonds and coupons may be presented for payment.

Section 6.09. General. (a) The Board shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Board under the provisions of the Act and this General Resolution.

(b) Upon the date of delivery of any of the Bonds, all conditions, acts and things required by law and this General Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds shall exist, have happened and have been performed and the issuance of such Bonds, together with all other indebtedness of the Board, shall be within every debt and other limit prescribed by the laws of the State.

ARTICLE VII

CONCERNING THE FIDUCIARIES

Section 7.01. Appointment and Acceptance of Duties.

(a) In addition to the State Treasurer, the Board may appoint one or more Paying Agents for the Bonds of each Series, and a Bond Registrar. The Bond Registrar may be appointed as Paying Agent.

(b) The Bond Registrar and each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this General Resolution by executing and delivering to the Board a written acceptance thereof.

(c) Unless otherwise provided, the principal offices of the Paying Agents are designated as the respective offices or agencies of the State for the payment of the interest on and principal or Redemption Price of the Bonds.

Section 7.02. Responsibilities of Fiduciaries. The recitals of fact contained herein and in the Bonds shall be taken as the statements of the State and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this General Resolution or of any Bonds or coupons issued hereunder or as to the security afforded by this General Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the Board or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct.

Section 7.03. Evidence on Which Fiduciaries May Act.

(a) Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of this General Resolution, shall examine such instrument to determine whether it conforms to the requirements of this General Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Board, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under this General Resolution in good faith and in accordance therewith.

(b) Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this General Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Board, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

(c) Except as otherwise expressly provided in this General Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Board to any Fiduciary shall be sufficiently executed if executed in the name of the Board by an Authorized Officer.

Section 7.04. Compensation. The State shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this General Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under this General Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this General Resolution. Subject to the provisions of Section 7.02 hereof, the State further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and which are not due to its negligence or willful misconduct.

Section 7.05. Resignation (or Removal) of Bond Registrar. (a) The Bond Registrar may at any time resign or be discharged of the duties and obligations created by this General Resolution by giving not less than 60 days' written notice to the Board, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Board, in which event such resignation shall take effect immediately on the appointment of such successor.

(b) The Board shall have the right to remove a Bond Registrar at any time upon filing with the Bond Registrar an instrument in writing for such cause as shall be determined in the sole discretion of the Board.

(c) In the event of the resignation or removal of any Bond Registrar, such Bond Registrar shall pay over, assign

and deliver any moneys held by it as Bond Registrar to its successor, or if there be no successor, to the State Treasurer. In the event that for any reason there shall be a vacancy in the office of any Bond Registrar, the State Treasurer shall act as such Bond Registrar.

Section 7.06. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this General Resolution shall have been authenticated but not delivered, any successor Bond Registrar may adopt the certificate of authentication of any predecessor so authenticating such Bonds and deliver such Bonds so authenticated. In case any of such Bonds shall not have been authenticated, any successor Bond Registrar may authenticate such Bonds in the name of the predecessor Bond Registrar or in the name of the successor Bond Registrar, and in all such cases such certificate shall have the full force which it is anywhere in such Bonds or in this General Resolution provided that the certificate of the Bond Registrar shall have.

Section 7.07. Resignation or Removal of Paying Agent and Appointment of Successor. (a) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this General Resolution by giving at least 60 days' written notice to the Board, and the other Paying Agent, if any. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by the Board. Any successor Paying Agent shall be appointed by the Board and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least \$10,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by this General Resolution.

(b) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the State Treasurer. In the event that for any reason there shall be a vacancy in the office of the Paying Agent, the State Treasurer shall act as such Paying Agent.

ARTICLE VIII

SUPPLEMENTAL RESOLUTIONS

Section 8.01. Supplemental Resolutions Not Requiring Consent of Bondholders. Without the consent of or notice to any of the Bondholders, the Board may adopt one or more Supplemental Resolutions, not inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

(i) to authorize Bonds of a Series and, in connection therewith, to specify and determine the matters and things referred to in Section 2.03 hereof and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with this General Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(ii) to close this General Resolution or any Supplemental Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this General Resolution or any Supplemental Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(iii) to pledge any money, property or revenues towards the repayment of any Series of Bonds;

(iv) to add to the covenants and agreements of the Board in this General Resolution or any Supplemental Resolution, other covenants and agreements to be observed by the Board which are not contrary to or inconsistent with this General Resolution or the applicable Supplemental Resolution as theretofore in effect;

(v) to add to the limitations and restrictions of this General Resolution or any Supplemental Resolution, other limitations and restrictions to be observed by the Board which are not contrary to or inconsistent with this General Resolution or the applicable Supplemental Resolution as theretofore in effect;

(vi) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this General Resolution or any Supplemental Resolution, of the

Pledged Tax Revenues or of any other moneys, securities or funds;

(vii) to modify any of the provisions of this General Resolution or any Supplemental Resolution in any respect whatever, provided that (A) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (B) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(viii) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this General Resolution or any Supplemental Resolution in a manner not adverse to the interest of Bondholders; or

(ix) to insert such provisions clarifying matters or questions arising under this General Resolution or any Supplemental Resolution as are necessary or desirable and are not contrary to or inconsistent with this General Resolution or the applicable Supplemental Resolution theretofore in effect.

Section 8.02. Supplemental Resolutions Requiring Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted by the Board subject to consent by the Bondholders in accordance with and subject to the provisions of Article IX, which Supplemental Resolution shall become fully effective in accordance with its terms as provided in said Article IX.

Section 8.03. General Provisions. (a) This General Resolution and any Supplemental Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article VIII and Article IX. Nothing contained in this Article VIII or Article IX shall affect or limit the right or obligation of the Board to adopt, make, do, execute, acknowledge or deliver any certificate, or other instrument or act pursuant to the provisions of Section 6.03 hereof or the right or obligation of the Board to execute and deliver to any Fiduciary any instrument which elsewhere in this General Resolution or any Supplemental Resolution it is provided shall be delivered to said Fiduciary.

(b) Any Supplemental Resolution referred to and permitted or authorized by Sections 8.01 and 8.02 hereof may be adopted by the Board without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in such Sections, respectively. The copy of every Supplemental Resolution shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this General Resolution, is authorized or permitted by this General Resolution and is valid and binding upon the State and enforceable in accordance with its terms.

ARTICLE IX

AMENDMENTS AND MODIFICATIONS REQUIRING CONSENT OF BONDHOLDERS

Section 9.01. Mailing and Publication. (a) Any provision in this Article IX for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid:

(i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the Bond Registrar,

(ii) to each Bondholder of any Bonds payable to bearer who shall have filed with the Bond Registrar within two years preceding such mailing an address pursuant to Section 11.09 hereof, and

(iii) to the Bond Registrar.

(b) Any provision in this Article IX for publication of a notice or other matter shall require the publication thereof only in Authorized Newspapers.

Section 9.02. Powers of Amendment. Any modification or amendment of this General Resolution or any Supplemental Resolution and of the rights and obligations of the State and of the Bondholders, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 9.03 hereof (i) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section 9.02. No such modification or amendment shall permit a change in the terms of the additional Bonds test of Section 6.05 of this General Resolution, in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Bondholders of all such Bonds, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment or

shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section 9.02, a Series of Bonds shall be deemed to be affected by a modification or amendment of this General Resolution if the same adversely affects or diminishes the rights of the Holders of such Series of Bonds. The Board, relying upon Counsel's Opinion, may determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of this General Resolution and any such determination shall be binding and conclusive on the State and the Bondholders.

Section 9.03. Consent of Holders of Bonds. The Board may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 9.02 hereof, to take effect when and as provided in this Section 9.03. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto approved by the Bond Registrar), together with a request to Bondholders for their consent thereto, shall be mailed to the Bondholders (But failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as provided in this Section 9.03). Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Board (a) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 9.02 hereof and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Board in accordance with the provisions of this General Resolution, is authorized or permitted by this General Resolution, and is valid and binding upon the State and enforceable in accordance with its terms. Any such consent shall be binding upon the Bondholder giving such consent and, anything in Section 11.02 hereof to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Bondholder thereof has notice thereof) unless the Bondholder files a written revocation of such consent with the Board prior to the time when the written statement of the Board hereinafter in this Section 9.03 provided for is filed. The fact that a consent has not been revoked may be proved by a certificate of the Board to the effect that no revocation thereof is on file with the Board. At any time after the Bondholders of the required percentage of Bonds shall have filed their consent to the Supplemental Resolution, the Board shall make and file a written statement that the Bondholders of such required percentage of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter, notice stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Board on a stated date, a copy of which is on file with the Board) has been

consented to by the Holders of the required percentage of Bonds and will be effective as provided in this Section 9.03, may be given to Bondholders by the Board by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 9.03 provided) not more than 90 days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Board hereinabove provided for is filed. The Board shall file proof of the mailing of such notice. A record consisting of the papers required or permitted by this Section 9.03 to be filed with the Board shall be proof of the matter therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Board, the Fiduciaries and the Holders of all Bonds and coupons at the expiration of 30 days after the filing of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 30 day period; provided, however, that any Fiduciary and the Board during such 30 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.04. Modifications by Unanimous Consent. The terms and provisions of this General Resolution or any Supplemental Resolution and the rights and obligations of the State and of the Bondholders may be modified or amended in any respect upon the issuance and filing by the Board of a Supplemental Resolution and the consent of the Bondholders of all Bonds then Outstanding, such consent to be given as provided in Section 9.03 hereof, except that no notice of such consent to Bondholders either by mailing or publication shall be required.

Section 9.05. Exclusion of Bonds. Bonds owned or held by or for the account of the State shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article IX, and the State shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article IX.

Section 9.06. Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article VIII hereof or this Article IX provided, may bear a notation by endorsement or otherwise in form approved by the Board as to such action, and in that case upon demand of any Bondholder of any Bond Outstanding at such effective date and

presentation of his Bond for this purpose at the principal office of the Bond Registrar or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Bond Registrar as to any such action. If the Board shall so determine, new Bonds so modified as in the opinion of the Board to conform to such action shall be prepared, delivered and, upon demand of the Bondholders of any Bond then Outstanding, shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity then Outstanding, upon surrender of such Bonds.

ARTICLE X

DISCHARGE OF RESOLUTION; DEFEASANCE OF BONDS

SECTION 10.01. Discharge in Entirety. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds and coupons the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this General Resolution, then the pledge of any Pledged Tax Revenues, Pledged Project Revenues, and other moneys and securities pledged under this General Resolution and all covenants, agreements and other obligations of the State to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Board shall cause an accounting for such period or periods as shall be deemed desirable by the Board to be prepared and filed and shall execute and deliver all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the State Treasurer all moneys or securities held by them pursuant to this General Resolution which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds or payment of coupons not theretofore surrendered for such payment or redemption.

Section 10.02. Discharge as to a Series of Bonds. If the State shall pay or cause to be paid, or there shall otherwise be paid to the Bondholders of all Outstanding Bonds of a particular Series and the coupons appertaining thereto the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in this General Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under this General Resolution, and all covenants, agreements and obligations of the State to the Bondholders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Section 10.03. Appointment of Escrow Agent. The Board by Supplemental Resolution may at any time appoint one or more Escrow Agents to perform the duties set forth in Section 10.04 of this General Resolution. Any Bond Registrar or Paying Agent may be appointed as an Escrow Agent. Each Escrow Agent shall signify its acceptance of the duties and obligations imposed upon it by this General Resolution and any Supplemental Resolutions by executing and delivering to the Board a written acceptance thereof.

Section 10.04. Bonds Deemed Paid. Bonds, coupons or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by an Escrow Agent or any one or more of the alternate Paying Agents (through deposit by the State of moneys for such

payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in Section 10.01 or 10.02 hereof. All Outstanding Bonds and all coupons appertaining to such Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in Section 10.01 or 10.02 hereof if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Board shall have given to the Escrow Agent in form satisfactory to it irrevocable instructions to mail as provided in Article III notice of redemption of such Bonds on said date (ii) there shall have been deposited with the Escrow Agent either moneys in an amount which shall be sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Escrow Agent at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Board shall have given the Escrow Agent in form satisfactory to it irrevocable instructions to give notice, as soon as practicable, to the Holders of such Bonds that the deposit required by (ii) above has been made with the Escrow Agent and that said Bonds are deemed to have been paid in accordance with this Section 10.02 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price of said Bonds. The Government Obligations or moneys deposited with the Escrow Agent pursuant to this Section 10.04 or principal or interest payments on any such Government Obligations shall not be held in trust for, and shall not be withdrawn or used for any purpose other than, the payment of the principal or Redemption Price, if applicable, of and interest on said Bonds and any bonds or other obligations issued by the Board the proceeds of which were used to acquire such Government Obligations, in whole or in part; provided that no such principal of or interest on such Government Obligations shall be applied to the payment of the principal or redemption price of or interest on such bonds or other obligations unless (x) the Escrow Agent shall have received a schedule showing, for each year from the date of deposit of such Government Obligations until the redemption date or maturity date of said Bonds, as the case may be, the amount of principal of and interest on such Government Obligations and moneys, if any, deposited with the Escrow Agent at the same time which will be available to pay the principal or Redemption Price of and interest due on said Bonds in each such year, plus the amount of any excess in each such year, and (y) the amount of such principal of or interest on such Government Obligations to be so applied to the payment of such bonds or other obligations does not exceed in any year

the amount of such excess for, or accumulated and unexpended to, such year. Notwithstanding any other provision of this Section 10.04, any cash received from such principal or interest payments on such Government Obligations deposited with the Escrow Agent, if not then needed for such purpose, shall to the extent practicable and permitted by Section 103 of the Code, be reinvested in Government Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, of and interest due and to become due on said bonds on and prior to such redemption date or maturity date thereof, as the case may be.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Failure to Present Bonds or Coupons. Anything in this General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds or coupons which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the date when such Bonds became due and payable, shall, at the written request of the Board be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the State for the payment of such Bonds and coupons; provided, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers, a notice that such moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

Section 11.02. Evidence of Signatures of Bondholders and Ownership of Bonds. (a) Any request, consent, revocation of consent or other instrument which this General Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of the execution of any such instrument or of any instrument appointing any such attorney shall be sufficient for any purpose of this General Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Bond Registrar, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(i) The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guaranty of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgements of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such

notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guaranty, certificate or affidavit shall also constitute sufficient proof of his authority.

(b) The ownership of registered Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(c) Any request or consent by the Holder of any Bond shall bind all future Holders of such Bond in respect of anything done or suffered to be done by the Board or any Fiduciary in accordance therewith.

Section 11.03. Moneys Held For Particular Bonds. Subject to the provisions of Section 11.01, the amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds or coupons shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds and coupons entitled thereto.

Section 11.04. Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of this General Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the State, any other Fiduciary, and any Bondholders and their agents and their representatives, any of whom may make copies thereof.

Section 11.05. Parties Interested Herein. (a) Nothing in this General Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the State, the Fiduciaries and the Bondholders any right, remedy or claim under or by reason of this General Resolution or any covenant, condition or stipulation hereof; and all the covenants, stipulations, promises and agreements in this General Resolution contained by and on behalf of the Board shall be for the sole and exclusive benefit of the State, the Fiduciaries and the Bondholders.

(b) The Holders of any Bond or the coupons appertaining thereto shall have the right to enforce the provisions of the General Resolution and the applicable Supplemental Resolutions and to institute any action to enforce the covenants contained herein and therein.

Section 11.06. No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on this

General Resolution against any officer of the State or any person executing the Bonds.

Section 11.07. Publication of Notice; Suspension of Publication. (a) Any publication to be made under the provisions of this General Resolution in successive weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspapers for any or all successive publications but may be made in different Authorized Newspapers.

(b) If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to this General Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Board shall constitute a sufficient publication of such notice.

Section 11.08. Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in this General Resolution on the part of the Board, the State, or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this General Resolution.

Section 11.09. List of Bondholders. (a) To the extent that such information shall be made known to the Board under the terms of this General Resolution, it will keep on file at the office of the Bond Registrar a list of names and addresses of the last known Holders of all Bonds payable to bearer. Any Bondholder may request that his name and address be placed on said list by filing a written request with the Bond Registrar, which request shall include a statement of the principal amount of Bonds held by such Holder and the numbers of such Bonds. The Bond Registrar and the Board shall have no responsibility with regard to the accuracy of said list.

Section 11.10. Access to Registration Books and Lists of Bondholders. (a) The Board shall have access to the registration books and the Lists of Holders of bearer Bonds kept by the Bond Registrar at all reasonable times. At reasonable times and under reasonable regulations established by the Bond Registrar, said registration books and lists may be inspected and copied by the Holders (or a designated representative thereof) of 25% or more in aggregate principal amount of Bonds Outstanding.

(b) Each Bondholder, by the purchase and acceptance of such Bond, consents to the disclosure of his name, address

and the principal amount of Bonds held by him in accordance with this Section and agrees that the Bond Registrar shall not be held accountable for the disclosure of any such information.

Section 11.11. Agreement of the State. In accordance with the Act, the Board hereby includes as a part of its contract with Bondholders the following pledge and agreement of the State: The State pledges that it will not in any way impair the obligations of any agreement between the Board and the Holders of Bonds issued by the State under the Enabling Act.


Section 11.12. Filing of Security Instruments. The Board hereby covenants that it will cause this General Resolution and all supplements hereto, together with all other security instruments and financing statements, to be recorded and filed, as the case may be, in such manner and in such places as may be required by law in order to perfect the lien of, and the security interests created by, this General Resolution.

Section 11.13. Applicable Law. This General Resolution shall be governed exclusively by the applicable laws of the State.


Section 11.14. Table of Contents and Section Headings Not Controlling. The Table of Contents and the headings of the several Articles and Sections of this General Resolution have been prepared for convenience of reference only and shall not control, affect the meaning of, or be taken as an interpretation of any provision of this General Resolution.

Section 11.15. Effective Date. This General Resolution shall take effect immediately.

DATED: _____



Chairman



Secretary

EXTRACT OF MINUTES OF SPECIAL MEETING
OF THE STATE BOARD OF EXAMINERS HELD AUGUST 1, 1984

Pursuant to the due call and notice, a special meeting of the State Board of Examiners of the State of Montana was held in the Governor's Reception Room, State Capitol, Helena, Montana, on August 1, 1984, at 4:00 p.m.

The following members were present: Governor Ted Schwinden and Secretary of State Jim Waltermire; Attorney General Mike Greely was absent.

Secretary of State Jim Waltermire moved the adoption of the following resolutions as submitted to the meeting:


"Resolutions entitled 'State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, General Resolution' and 'State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A Supplemental Resolution'"

The motion was duly seconded by Governor Ted Schwinden, and upon vote being taken thereon, the following voted in favor thereof: Governor Ted Schwinden and Secretary of State Jim Waltermire; and the following voted against the same: none, whereupon the resolutions were declared passed and adopted.

I, Morris L. Brusett, being the duly appointed, qualified and acting Executive Secretary of the Board of Examiners of the State of Montana, certify that the foregoing is a full, true and compared copy of the minutes of the special meeting duly called and held by said Board on August 1, 1984, and that attached hereto is a copy of the 1984 Series A Supplemental Resolution adopted by the Board as indicated in said minutes, entitled "State of Montana, Coal Severance Tax Bonds, Department of Natural Resources and Conservation, Water Development Program, 1984 Series A Supplemental Resolution."

WITNESS my hand and the seal of the state Board of Examiners this 2nd day of August, 1984.




MORRIS L. BRUSETT
Executive Secretary
State Board of Examiners
State of Montana

STATE OF MONTANA
COAL SEVERANCE TAX BONDS
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM

1984 Series A Supplemental Resolution

Adopted: August 1, 1984

RECITALS

WHEREAS, 1983 Montana Laws Chapter 705 authorized the Board to finance various water development projects, activities and loans by issuing up to \$62,946,635 of Bonds pursuant to MCA Sections 17-5-701 through 17-5-719; and

WHEREAS, the Board has heretofore adopted a General Resolution dated August 1, 1984, which provides for the issuance, from time to time, of State of Montana Coal Severance Tax Bonds in accordance with the terms of MCA Sections 17-5-701 through 17-5-719 and pursuant to a Supplemental Resolution; and

WHEREAS, the Board has decided to finance certain of the water development projects and loans described in 1983 Montana Laws Chapter 705 by the issuance of \$10,485,000 of State of Montana Coal Severance Tax Bonds; and

WHEREAS, all things have been done and all conditions have been met that are necessary to make the Bonds authorized by this Supplemental Resolution, when executed and issued by the Board upon the terms and conditions set forth in this Supplemental Resolution and authenticated and delivered as provided hereunder, the valid and binding obligations of the State in accordance with their terms, and to constitute this Supplemental Resolution a valid contract for the security of the 1984 Series A Bonds herein authorized, in accordance with its terms; and

WHEREAS, the \$10,485,000 aggregate principal amount of 1984 Series A Bonds to be issued hereunder are all to be in substantially the following form with necessary and appropriate variations, omissions and insertions as permitted or required by this Supplemental Resolution, to-wit:

NO. _____

\$ _____

UNITED STATES OF AMERICA

STATE OF MONTANA

COAL SEVERANCE TAX BONDS

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

WATER DEVELOPMENT PROGRAM

1984 SERIES A

The State of Montana, for value received, acknowledges itself to be indebted and promises to pay solely from Pledged Project Revenues and Pledged Tax Revenues as hereinafter described, to _____, or registered assigns, the principal sum of

DOLLARS

on the first day of December, _____, upon presentation and surrender of this bond at the office of the Treasurer of the State of Montana at Helena, Montana, Paying Agent, or, at the option of the owner hereof, at the corporate trust office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, or its successor as Paying Agent and Bond Registrar, with interest thereon from the date hereof at the rate of per cent (_____%) per annum, payable semiannually on the first day of June and the first day of December in each year, commencing December 1, 1984, until the State's obligation with respect to the payment of such principal sum shall be discharged. Interest hereon shall be payable to the person in whose name this bond is registered at the close of business on each record date, which is the fifteenth day preceding each semi-annual interest payment date. The principal of and interest on this bond are payable in lawful money of the United States; provided, however, that interest on this fully registered bond shall be paid by check or draft mailed to the holder of this bond, by electronic transfer, or by any other means commercially accepted on the date of payment.

This bond is one of a duly authorized series of bonds of the State designated "State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A" (herein called the "1984 Series A Bonds") issued by the State in the aggregate principal amount of \$10,485,000 under and pursuant to (i) MCA Sections 17-5-701 through 17-5-719, (ii) 1983 Mont. Laws Ch. 705, (iii) a General Resolution (the "General Resolution")

adopted by the State Board of Examiners (the "Board") on August 1, 1984, and (iv) a 1984 Series A Supplemental Resolution (the "Supplemental Resolution") adopted by the Board on August 1, 1984; the General Resolution and the Supplemental Resolution are herein collectively called the "Bond Resolution". The 1984 Series A Bonds are all of like date and tenor, except as to number, interest rate and maturity, and are issued for the purpose of making loans to finance certain water development projects, and for other purposes as authorized by the Bond Resolution. Reference is hereby made to the Bond Resolution, as the same may be amended and supplemented from time to time, for a description of the rights, limitation of rights, obligations, duties and immunities of the State, the Bond Registrar, the Paying Agents and the holders of the bonds issued thereunder. (All bonds issued under the General Resolution, including the 1984 Series A Bonds, are herein collectively called the "Bonds".) Certified copies of the Bond Resolution are on file in the corporate trust office of the Bond Registrar and in the office of the State Treasurer.

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by a pledge of (i) 50% of the revenues of the coal severance tax imposed by the State and held for up to six months in the Trust Fund Bond Account pursuant to the General Resolution (the "Pledged Tax Revenues"), (ii) all revenues and loan repayments received by the State with respect to the projects financed with the proceeds of the 1984 Series A Bonds (the "1984 Series A Pledged Project Revenues"), (iii) the amounts, if any, in the Surplus Project Revenue Account, (iv) all amounts in the Debt Service Reserve Account and (v) the proceeds of the 1984 Series A Bonds. The State has agreed to continue to assess, levy and collect the coal severance tax in amounts which, together with the other revenues, assets and money pledged for repayment of the Bonds, will be sufficient to pay when due the debt service on the Bonds.

Additional Bonds may be issued from time to time pursuant to supplemental resolutions in one or more series and in various principal amounts, which may mature at different times, may bear interest at different rates and may otherwise vary as provided in the General Resolution or any supplemental resolution amendatory thereof or supplemental thereto. Such additional Bonds cannot have a superior lien on the Pledged Tax Revenues or the 1984 Series A Pledged Project Revenues, and such additional Bonds may not be issued unless the average amount of coal severance tax revenues deposited annually into the Trust Fund Bond Account during the previous three fiscal years is at least twice the maximum annual debt service on all outstanding Bonds and such additional Bonds. The aggregate principal amount of Bonds which may be issued under the General Resolution is not limited except as provided in the General Resolution and by law.

The General Resolution and any supplemental resolution can be modified or amended to the extent and in the manner permitted by such resolutions; provided, however, that no such modification or amendment shall permit a change in the additional Bonds test, in the terms of redemption or maturity of the principal of any outstanding Bonds or of any installments of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the holders of such Bonds, or shall reduce the percentage or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment without the consent of the holders or registered owners of all such Bonds then outstanding.

This bond is transferable, as provided in the General Resolution, without service charge, only upon the books of the State kept for that purpose at the corporate trust office of the Bond Registrar by the registered owner in person or by his duly authorized attorney, upon surrender of this bond together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or his duly authorized attorney. Thereupon, a new fully registered 1984 Series A Bond or Bonds of the same aggregate principal amount, series and maturity shall be issued to the transferee in exchange therefor as provided in the General Resolution. The State, the Bond Registrar, and the Paying Agents may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and interest due hereon and for all other purposes.

The holder of this bond shall have the right to enforce the provisions of the Bond Resolution and to institute any action to enforce the covenants.

It is hereby certified and recited that all acts, conditions and things required by the Constitution and laws of the State of Montana to be done, to exist, to happen and to be performed precedent to and in the issuance of this bond, in order to make it the valid and binding limited obligation of the State in accordance with its terms have been done, do exist, have happened and have been performed in regular form, time and manner as so required and that the issuance of this bond does not cause the indebtedness of the State of Montana to exceed any constitutional or statutory limitation.

This bond shall not be valid or obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Bond Registrar.

WITNESS WHEREOF the State of Montana, by its Board of Examiners, has caused this bond to be executed by the signatures of the Governor, the Secretary of State and the Attorney General as the members of said Board, by facsimiles of their respective signatures reproduced hereon, and has caused a facsimile of the Great Seal of the State of Montana to be printed hereon and the certificate on the reverse side hereof to be executed with facsimiles of the signatures of said members of the Board of Examiners, and has caused this bond to be dated as of the first day of August, 1984.

Governor

Attorney General

Secretary of State

(Great Seal of the
State of Montana)

Bond Registrar's Certificate

This bond is one of the Bonds described in the Bond Resolution of the State Board of Examiners.

_____, Bond
Registrar

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____ (please print or typewrite name and address of transferee)
_____ (please insert social security

or other identifying number of assignee) the within bond and all rights and title thereunder, and hereby irrevocably constitutes and appoints _____ as attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

[Certificate]

We certify that the issuance and sale of the within bond has been recorded by the Treasurer of the State of Montana and that we have caused to be printed below a full, true and correct copy of the legal opinion rendered by bond counsel, Oitzinger and Mullendore, Helena, Montana, on the issue of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, of the State of Montana, which includes the within bond, dated as of the date of delivery of and payment for such Bonds.

Facsimile signature)	(Facsimile Signature)	(Facsimile Signature)
Attorney General	Secretary of State	Governor

[Printed copy of text of legal opinion]

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. (a) All terms which are defined in Section 1.03 of the General Resolution shall have the same meanings, respectively, in this Supplemental Resolution as such terms are given in the General Resolution.

(b) In addition, as used in this Supplemental Resolution, unless the context shall otherwise require, the following terms shall have the following respective meanings:

"General Resolution" means the State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program General Resolution adopted August 1, 1984.

"Loans" means the water development loans and the dam rehabilitation project described in the Recommendation.

"Official Statement" means the official statement dated August 1, 1984, substantially in the form presented to the meeting of the Board on August 1, 1984, with such amendments, additions or deletions as may be approved by the Department.

"1984 Series A Pledged Project Revenues" means all payments of principal, interest and penalties received by the State in repayment of the Loans. Administrative charges and origination fees are not 1984 Series A Pledged Project Revenues.

"Preliminary Official Statement" means the preliminary official statement dated July 24, 1984, in substantially the form presented to the meeting of the Board on July 16, 1984, ordered filed with the minutes thereof.

"1984 Series A Project Costs" means the principal amount of the Loans.

"Purchase Contract" means the Purchase Contract dated August 1, 1984, between the Board and The First Boston Corporation, D.A. Davidson & Co., and Dain Bosworth Incorporated, as managers of the purchasers, in the form presented to the meeting of the Board held on August 1, 1984.

"Recommendation" means the letter from the Department to the Board dated August 1, 1984,

recommending the sale and issuance of the 1984 Series A Bonds on the terms set forth therein, the list of Loans set forth on the list attached to such letter as Schedule 1, and any amendment to such Schedule 1 approved by the Board.

"1984 Series A Bonds" means the Bonds of the Series authorized by this Supplemental Resolution and designated "State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A."

"Supplemental Resolution" means this 1984 Series A Supplemental Resolution.

ARTICLE II
PLEDGES

SECTION 2.01. Pledge. (a) To secure payment of the principal of, premium if any, and interest on all Bonds issued under this Supplemental Resolution, and in consideration of the purchase of such Bonds by the Holders thereof, the State hereby grants such Bondholders a security interest in and pledges and confirms to the Bondholders the following revenues, assets and money:

(i) All 1984 Series A Pledged Project Revenues, for so long as such revenues remain in the 1984 Series A Debt Service Account pursuant to the terms of the General Resolution;

(ii) All amounts in the Surplus Project Revenue Account, as and to the extent that such amounts are pledged by the General Resolution;

(iii) All Pledged Tax Revenues, as and to the extent that such Pledged Tax Revenues are pledged by the General Resolution;

(iv) All amounts in the Debt Service Reserve Account as and to the extent that such amounts are pledged by the General Resolution;

(v) All amounts in the 1984 Series A Bond Proceeds Account; and

(vi) Any other revenues, assets or money which may hereafter, by delivery or writing of any kind, be conveyed, pledged, assigned or transferred as and for additional security for the Bonds.

(b) This pledge is valid and binding from the date of this Supplemental Resolution, and all revenues, assets and money hereby pledged and hereafter received by the State shall immediately be subject to the lien and security interest created by this pledge. It is the intention of the State that such lien and security interest shall be valid and binding against all parties having claims of any kind, in tort, contract or otherwise, against the State.

(c) Pursuant to MCA Section 17-5-709, the Board hereby undertakes on behalf of the State as follows:

the legislature shall provide for the continued assessment, levy, collection, and deposit into the coal severance tax bond fund of the coal severance tax which, together with such other revenues, assets, and money as may be deposited to one or more special bond funds pledged for the benefit of

coal severance tax bonds, will be sufficient to produce an amount that is at least the amount necessary to pay, when due, the annual debt service charges on all outstanding coal severance tax bonds.

SECTION 2.02. Resolution Constitutes Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued pursuant to this Supplemental Resolution by those who shall hold the same from time to time, this Supplemental Resolution shall be deemed to be and shall constitute a contract among the State and the Holders from time to time of such Bonds; provided, however, that if the State shall pay or cause to be paid the principal or Redemption Price (if applicable) of and interest on all of such Bonds at the times and in the manner provided in the General Resolution, in this Supplemental Resolution and in such Bonds, or shall provide, as permitted by Article 10.04 of the General Resolution, for the payment thereof by depositing with an Escrow Agent moneys or certain securities sufficient for that purpose, and shall keep, perform and observe all the covenants and conditions set forth in the General Resolution and this Supplemental Resolution, and shall pay or cause to be paid all sums of money due or to become due to any of the Bondholders in accordance with the terms and provisions of such Resolutions, then this Supplemental Resolution and the rights and interest granted by it shall cease, terminate and be void.

ARTICLE III
ACCOUNTS

SECTION 3.01. Creation of Accounts. The State Treasurer shall create the following Accounts in the State Treasury Fund Structure pursuant to Section 5.03 of the General Resolution:

(a) A 1984 Series A Coal Severance Tax Bond Debt Service Account (hereinafter referred to as the "1984 Series A Debt Service Account).

(b) A 1984 Series A Coal Severance Tax Bond Bond Proceeds Account (hereinafter referred to as the "1984 Series A Bond Proceeds Account.")

SECTION 3.02. 1984 Series A Bond Proceeds Account. (a) The State Treasurer shall provide for disbursement of money deposited in the 1984 Series A Bond Proceeds Account to pay 1984 Series A Project Costs upon request of the Department.

(b) The State Treasurer shall transfer all Investment Income earned on money in the 1984 Series A Bond Proceeds Account to the 1984 Series A Debt Service Account.

SECTION 3.03. Debt Service Account. (a) If on any December 31 Section 5.06(d) of the General Resolution requires any amount to be transferred out of the 1984 Series A Debt Service Account, such amount shall be deposited into the Water Development State Special Revenue Account, or into such other account as may be required by law or Supplemental Resolution.

(b) Investment Income earned on amounts in the 1984 Series A Debt Service Account shall be retained in such account.

SECTION 3.04. Debt Service Reserve Account. Investment Income earned on proceeds of the 1984 Series A Bonds held in the Debt Service Reserve Account shall be transferred to the 1984 Series A Debt Service Account.

ARTICLE IV

AUTHORIZATION AND TERMS OF 1984 SERIES A BONDS

SECTION 4.01. Principal Amount, Designation and Series. Pursuant to the provisions of the General Resolution, a Series of Coal Severance Tax Bonds of the State entitled to the benefits, protection and security of such provisions is hereby authorized in the aggregate principal amount of \$10,485,000. The 1984 Series A Bonds shall be designated "State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A". The 1984 Series A Bonds shall be issued in the form of fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

SECTION 4.02. Purposes. The 1984 Series A Bonds are authorized in order to finance the Projects listed in the Recommendation, in order to pay costs of issuance, and in order to provide moneys for deposit into the 1984 Series A Debt Service Reserve Account.

SECTION 4.03. Date, Maturities and Interest Rates. The 1984 Series A Bonds shall be dated August 1, 1984, subject to the provisions of Section 2.04(c) of the General Resolution with respect to dates of Bonds. The 1984 Series A Bonds shall mature on December 1 in the years and in the principal amounts and shall bear interest at the rates set forth below from the date thereof payable on December 1, and semi-annually thereafter on June 1 and December 1 of each year until payment of the principal thereof, all as shown below:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985	\$ 190,000	6 3/4%
1986	205,000	7.2
1987	220,000	7.4
1988	235,000	7.7
1989	255,000	8.0
1990	275,000	8 1/4
1991	300,000	8 1/2
1992	325,000	8 3/4
1993	350,000	9.0
1994	385,000	9.2
1995	420,000	9.4
1996	460,000	9 1/2
1999	1,660,000	10 1/8
2005	5,205,000	10 1/4

SECTION 4.04. Sinking Fund Installments. The 1984 Series A Term Bonds shall be redeemed prior to their maturity

by paying of Sinking Fund Installments, upon notice as provided in Article III of the Resolution, on each of the dates set forth below and in the respective principal amounts set forth opposite each such date, in each case at a Redemption Price of 100% of the principal amount of such 1984 Series A Term Bonds or portions thereof to be so redeemed, together with accrued interest to the redemption date as follows:

Term Bonds due December 1, 1999

<u>December 1</u>	<u>Sinking Fund Installments</u>
1997	\$ 500,000
1998	550,000
1999*	610,000

Term Bonds due December 1, 2005

<u>December 1</u>	<u>Sinking Fund Installments</u>
2000	\$ 670,000
2001	740,000
2002	815,000
2003	900,000
2004	990,000
2005	1,090,000

* Final Maturity

SECTION 4.05. Optional Redemption, Prices and Terms.

The 1984 Series A Bonds shall be subject to redemption prior to their maturity at the option of the Board on and after December 1, 1994, upon notice as provided in Article III of the Resolution in whole at any time or in part on any Bond Payment Date, at the respective Redemption Prices (expressed as percentages of the principal amount of such 1984 Series A Bonds or portions thereof to be so redeemed) set forth below, in each case together with accrued interest to the redemption date.

Period During Which Redeemed
(both dates inclusive)

Redemption Price

December 1, 1994 to November 30, 1995	102 %
December 1, 1995 to November 30, 1996	101
December 1, 1996 and thereafter	100

SECTION 4.06. Denominations, Numbers, and Letters. The 1984 Series A Bonds shall be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, shall be identified by a legend consisting of the letter "A" followed by the number of the Bond, and shall be numbered consecutively from 1 upwards.

SECTION 4.07. Paying Agents, Bond Registrar, and Place of Payment. Norwest Bank Minneapolis, Minneapolis, Minnesota, is hereby appointed the Paying Agent and Bond Registrar for the 1984 Series A Bonds. The places of payment

of the principal or Redemption Price of and interest on the 1984 Series A Bonds shall be as provided in Section 2.04(c) of the General Resolution.

SECTION 4.08. Execution of 1984 Series A Bonds. The 1984 Series A Bonds and the certificate on the reverse side of the Bonds shall be executed in the name of the State of Montana by the signatures of the Governor, the Secretary of State and the Attorney General, as members of the Board of Examiners, and the Great Seal of the State of Montana shall be affixed to each Bond. The seal and all signatures placed on the Bonds may be printed facsimiles of the originals thereof, except that no Bond shall be valid unless authenticated by manual signature of an authorized officer of the Bond Registrar.

SECTION 4.09. No Recourse on 1984 Series A Bonds. All covenants, stipulations, promises, agreements and obligations of the Board and the State contained in this Supplemental Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the State and not of any member, officer or employee of the Board or the State in his individual capacity, and no recourse shall be had for the payment of the principal of or interest on the 1984 Series A Bonds or for any claim based thereon or on this Supplemental Resolution, either jointly or severally, against any member, officer or employee of the Board or the State or any person executing said Bonds.

ARTICLE V

SALE AND DELIVERY OF BONDS

SECTION 5.01. Approval of Recommendation. The recommendation of the Department to issue and sell the 1984 Series A Bonds upon the terms set forth in the Purchase Contract to provide financing for the Projects identified in the Recommendation is hereby approved, and the Executive Secretary of the Board is authorized and directed to execute the Purchase Contract on behalf of the Board.

SECTION 5.02. Additional Bonds Test. The Board hereby finds and determines that the conditions of the additional bonds tests set forth in MCA Section 17-5-709(2) and Section 6.05 of the General Resolution have been met and complied with.

SECTION 5.03. Official Statement. The forms of Official Statement and Preliminary Official Statement are hereby approved and the distribution and use of such documents in connection with the sale of the 1984 Series A Bonds is hereby ratified and confirmed.

SECTION 5.04. Delivery of Bonds. The State Treasurer or an agent designated by the State Treasurer shall deliver the 1984 Series A Bonds to the purchasers upon payment of the purchase price stated in the Purchase Contract.

SECTION 5.05. Transfer to the Debt Service Reserve Account. The State Treasurer shall transfer \$602,813 from the Trust Fund Bond Account to the Debt Service Reserve Account, which amount, together with the amount deposited in the Debt Service Reserve Account pursuant to Section 6.01(d) of this Supplemental Resolution, will make the amount in the Debt Service Reserve Account equal to the Debt Service Reserve Requirement.

SECTION 5.06. State Treasurer's Agreement. The Agreement of the State Treasurer is hereby approved and the State Treasurer is authorized and directed to execute and deliver the Agreement.

ARTICLE VI

APPLICATION OF PROCEEDS OF 1984 SERIES A BONDS

SECTION 6.01. Application of 1984 Series A Bond Proceeds. In accordance with Section 4.01 of the General Resolution, the proceeds of the sale and delivery of the 1984 Series A Bonds exclusive of any amount received as accrued interest thereon shall be deposited in the Accounts set forth below:

(a) \$9,558,445 to the 1984 Series A Bond Proceeds Account to be used to pay 1984 Series A Project Costs;

(b) \$45,344 to the 1984 Series A Bond Proceeds Account to be used to pay Costs of Issuance;

(c) \$602,812 to the 1984 Series A Debt Service Reserve Account.

SECTION 6.02. Accrued Interest. The amount received as accrued interest upon the delivery of the 1984 Series A Bonds shall be deposited in the 1984 Series A Debt Service Account in accordance with Section 5.02(a) of the General Resolution.

ARTICLE VII
MISCELLANEOUS

SECTION 7.01. Effective Date. This Supplemental Resolution shall take effect immediately.

SECTION 7.02. Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in this Supplemental Resolution which are to be performed by the Board or any Fiduciary should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this Supplemental Resolution.

SECTION 7.03. Applicable Law. This Supplemental Resolution shall be applied and construed in accordance with the laws of the State.

SECTION 7.04. Table of Contents and Section Headings Not Controlling. The Table of Contents and the Headings of the several Sections of this Supplemental Resolution have been prepared for convenience of reference only and shall not control, affect the meaning of, or be taken as an interpretation of any provision of this Supplemental Resolution.

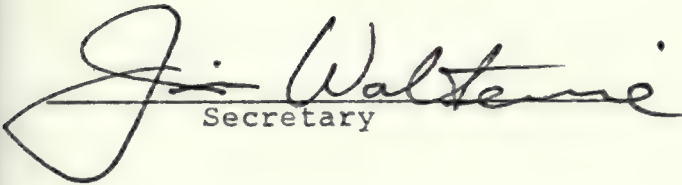
SECTION 7.05. Tax Exemption and Arbitrage. (a) Covenants. The Board covenants and agrees with the Holders from time to time of the 1984 Series A Bonds that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest of the 1984 Series A Bonds to become subject to taxation under the Internal Revenue Code of 1954, as amended, (the "Code"), and regulations thereunder, as now existing or as hereafter amended or proposed in effect at the time of such action.

(b) Certification. The Director of the Department is authorized and directed to execute and deliver to the purchasers of the 1984 Series A Bonds a certificate in accordance with the provisions of Section 103(c) of the Code and Sections 1.103-13, 1.103-14 and 1.103.15 of the Treasury Regulations, stating that on the basis of the facts, estimates and circumstances in existence on the date of issue and delivery of the Bonds, as such facts, estimates and circumstances are set forth in the certificate, it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be arbitrage bonds within the meaning of Section 103(c) of the Code and the Treasury Regulations applicable thereto.

SECTION 7.06. Further Action. The officers, members and staff of the Board and the Department and the Department of Administration are authorized to execute such other and further documents and take such action as they deem necessary or desirable to effectuate the sale and issuance of the Bonds and to carry out the intent of this Supplemental Resolution.

DATED: August 1, 1984.


Chairman


Secretary

OFFICIAL STATEMENT

\$10,485,000
State of Montana
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

Dated August 1, 1984

Due December 1, as shown below

The 1984 Series A Bonds are being issued for the purpose of making loans to certain local government entities, political subdivisions and water users' associations within the State of Montana in order to finance various water development projects. **The 1984 Series A Bonds are limited obligations of the State of Montana payable solely from and secured by certain coal severance tax revenues and by the revenues of the water development projects financed with the proceeds of the 1984 Series A Bonds, as more fully described herein.** The State has covenanted to assess, levy and collect the coal severance tax in an amount which, together with the other revenues pledged for repayment of the 1984 Series A Bonds, will be sufficient to provide for payment of the principal of and interest on such Bonds. The Resolutions under which the 1984 Series A Bonds are issued permit the issuance of additional bonds, as more fully described herein.

The 1984 Series A Bonds will be issued as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof. Interest on the 1984 Series A Bonds is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 1984, by check or draft mailed to the registered owners of such Bonds as of the record dates, which are the May 15 or November 15 preceding each interest payment date. Principal of the 1984 Series A Bonds is payable at the office of the Treasurer of the State of Montana, Paying Agent, in Helena, Montana, or at the option of the holder at the principal office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, Paying Agent and Bond Registrar. The 1984 Series A Bonds maturing after December 1, 1994 are subject to redemption prior to maturity as more fully described herein.

\$3,620,000 Serial Bonds

Year	Amount	Interest Rate	Price	Year	Amount	Interest Rate	Price
1985	\$190,000	6¾ %	100%	1991	\$300,000	8½ %	100%
1986	205,000	7.20	100	1992	325,000	8¾	100
1987	220,000	7.40	100	1993	350,000	9	100
1988	235,000	7.70	100	1994	385,000	9.20	100
1989	255,000	8	100	1995	420,000	9.40	100
1990	275,000	8¼	100	1996	460,000	9½	100

\$1,660,000 10¼% Bonds Due December 1, 1999—Price 100%

\$5,205,000 10¼% Bonds Due December 1, 2005—Price 99½%

(plus accrued interest)

In the opinion of Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the 1984 Series A Bonds is exempt from federal income taxes. Furthermore, in the opinion of Bond Counsel, under existing Montana laws, interest on the 1984 Series A Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

The 1984 Series A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Oitzinger & Mullendore, Helena, Montana, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Dorsey & Whitney, Minneapolis, Minnesota. It is expected that the 1984 Series A Bonds will be available for delivery in New York, New York on or about August 16, 1984.

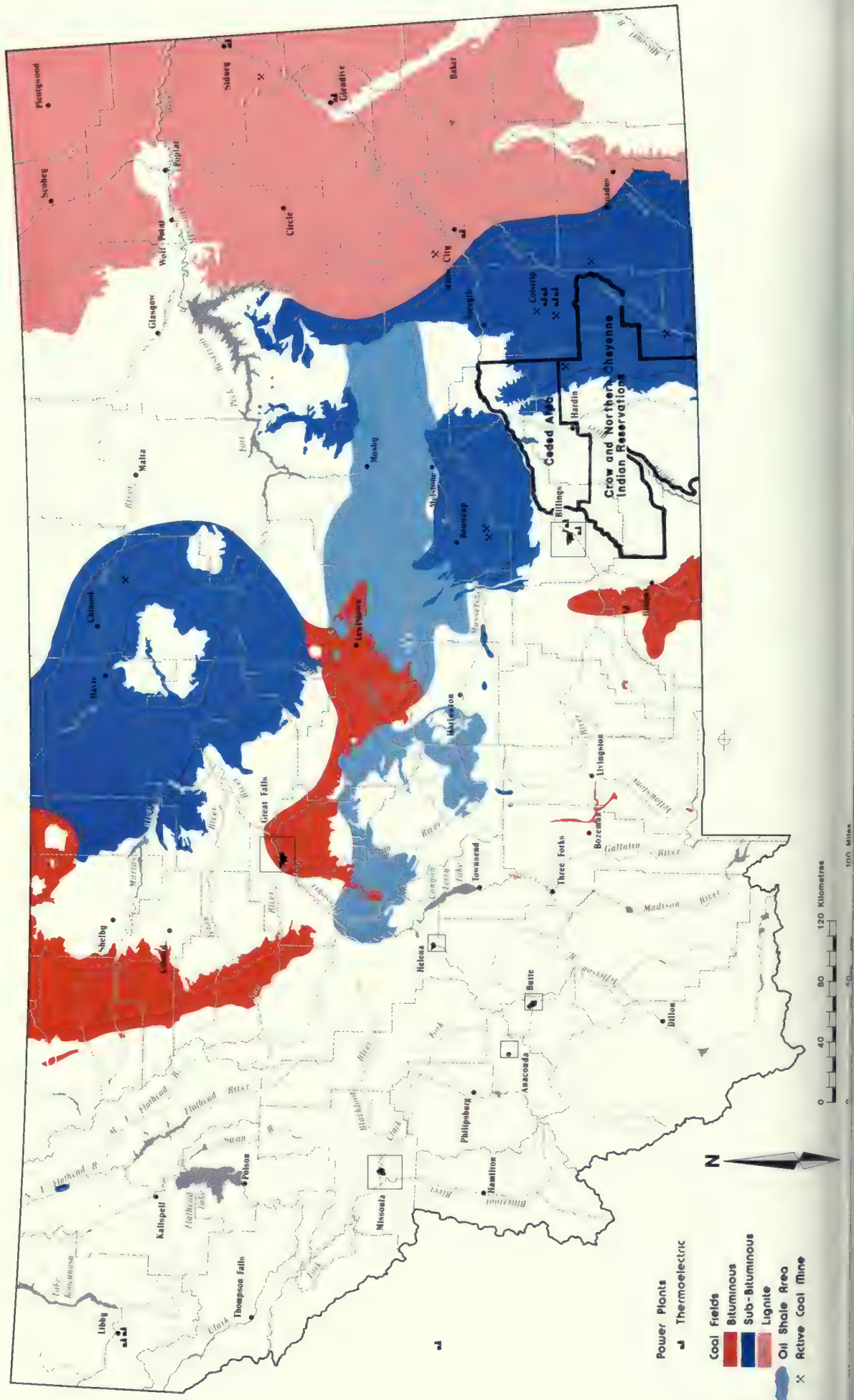
The First Boston Corporation

Dain Bosworth
Incorporated

D. A. Davidson & Co.
Incorporated

The date of this Official Statement is August 1, 1984.

Montana Coal Resources and Related Facilities



STATE OF MONTANA

Ted Schwinden
Governor

Morris L. Brusett
*Director, Department of Administration
and
Ex-officio State Treasurer*

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Caralee Cheney
*Chief, Water Development
Bureau*

Richard Bondy
Chief, Engineering Bureau

**OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
*Auditors***

OITZINGER & MULLENDORE
Helena, Montana
Bond Counsel

EVENSEN DODGE, INC.
Minneapolis, Minnesota
Financial Consultants

IN CONNECTION WITH THE OFFERING OF THE 1984 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$10,485,000
State of Montana
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

INTRODUCTION

This Official Statement (including the cover page and the appendixes attached hereto) provides certain information in connection with the issuance by the State of Montana (the "State") of its Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "1984 Series A Bonds"), in the aggregate principal amount of \$10,485,000.

The 1984 Series A Bonds are being issued pursuant to Montana Code Annotated ("MCA") Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (referred to collectively herein as the "Enabling Act"); a general resolution adopted by the Board of Examiners of the State (the "Board") on August 1, 1984 (the "General Resolution"); and a supplemental resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution"; the General Resolution and the Supplemental Resolution are sometimes referred to collectively herein as the "Resolutions"). The 1984 Series A Bonds and all other series of bonds issued pursuant to the Resolutions and the Enabling Act are referred to herein as the "Bonds".

The Enabling Act and 1981 Montana Laws H.B. 846 authorize the issuance of up to \$72,946,635 of Coal Severance Tax Bonds, \$45,350,000 of which may be issued to finance development of the hydroelectric generating potential of three state-owned dams, \$10,551,900 of which may be issued to finance the rehabilitation of four state-owned dams, and \$17,044,735 of which may be issued to make loans to certain local government entities, political subdivisions and water users' associations to finance the construction of various water projects. The State does not expect to issue the full amount of Bonds authorized for these purposes, and Bonds cannot be issued to finance hydroelectric projects until the Board of Natural Resources and Conservation has determined that such projects are economically feasible. See "The Water Development Program."

The 1984 Series A Bonds are being issued in order to make loans (the "Loans") to various local government entities, political subdivisions and water users' associations in order to finance various water, sewer, irrigation and dam rehabilitation projects. The Loans will be administered by the State's Department of Natural Resources and Conservation (the "Department") and will be made for the purposes and on the terms and conditions described in Appendix A, "Descriptions of the Loans and Projects Financed with the 1984 Series A Bonds."

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by a portion of the State's coal severance tax, the repayments received with respect to the Loans, the amounts in the Debt Service Reserve Account, the amounts, if any, in the Surplus Project Revenue Account, and the proceeds of the 1984 Series A Bonds. The 1984 Series A Bonds are the first series of Bonds to be issued pursuant to the Enabling Act and the General Resolution.

The State has covenanted in the Enabling Act and the General Resolution to provide for the continued assessment, levy, collection and deposit of coal severance taxes in amounts which, together with

the other revenues, assets and moneys pledged for payment of the Bonds, will be sufficient to pay the debt service on such Bonds. In addition, the State has covenanted in the General Resolution to maintain an amount not less than the maximum annual principal and interest due on the Bonds in a Debt Service Reserve Account. See "Security and Sources of Payment for the 1984 Series A Bonds." The constitutionality of the Enabling Act and the pledge of coal severance tax revenues and project revenues for payment of the Bonds was upheld by the Montana Supreme Court in *Grossman v. State of Montana*, decided May 7, 1984. See "Montana Supreme Court Decision."

Under the General Resolution no additional series of Bonds are permitted to be issued unless the average amount of coal severance tax revenues deposited into the Trust Fund Bond Account during the three fiscal years preceding the issuance of such additional Bonds is at least twice the maximum annual debt service due on such additional Bonds and all other outstanding Bonds in any future fiscal year. No Bonds are permitted to be issued with a lien on the revenues pledged for payment of the 1984 Series A Bonds that is superior to the lien of the 1984 Series A Bonds on such revenues. The Enabling Act presently permits the issuance of no more than \$250,000,000 of Bonds.

This Official Statement describes the terms of and security for the 1984 Series A Bonds and the water development projects to be financed with the proceeds of the 1984 Series A Bonds. Also included are summaries of certain provisions of the Resolutions. All references herein to the Resolutions and the Enabling Act are qualified in their entirety by reference to such documents. All references to the 1984 Series A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions. Terms capitalized and not defined herein shall have the meanings as defined in the Resolutions.

MONTANA SUPREME COURT DECISION

In October, 1983, a Montana taxpayer brought a declaratory judgment action, *Grossman v. State of Montana*, against the State of Montana to address the constitutionality of the Enabling Act on a number of grounds. In an opinion dated May 7, 1984, the Montana Supreme Court affirmed the constitutionality of the Enabling Act in every respect addressed in the case and held that the debt created by the Bonds issued pursuant to the Enabling Act would be a valid and enforceable obligation of the State; that the pledge and appropriation of coal severance tax revenues made in the Enabling Act was binding on future legislatures; that the Bonds authorized by the Enabling Act have a public purpose; that the Enabling Act does not make an appropriation for industrial purposes to any private individual, association or corporation not under the control of the State; that the appropriations made by the Enabling Act to pay debt service on the Bonds are complete and require no further legislative action; that the Enabling Act does not make any impermissible delegations of legislative power; that the Enabling Act complies with the State's unified investment program, as required by the State Constitution; and that the appropriations made by the Enabling Act do not constitute local or special laws forbidden by the State Constitution.

THE 1984 SERIES A BONDS

Purpose of the 1984 Series A Bonds

The proceeds from the sale of the 1984 Series A Bonds are to be used to provide funds for the Department to make the Loans to certain local government entities, political subdivisions and water users' associations within the State of Montana in order to finance the construction of various water, sewer, irrigation and dam rehabilitation projects (the "Projects"). See Appendix A, "Descriptions of the Loans and Projects Financed with the 1984 Series A Bonds" herein.

Description of the 1984 Series A Bonds

The 1984 Series A Bonds are being issued in the aggregate principal amount of \$10,485,000, will be dated August 1, 1984, will be issued as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof, and will bear interest at the rates and mature on the dates and in the amounts set forth on the cover page hereof. Interest on the 1984 Series A Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 1984 (first payment representing four months' interest) to the persons listed as the registered holders of the 1984 Series A Bonds on the books of the Bond Registrar on the record dates, which are the May 15 or November 15 preceding each interest payment date, by check or draft mailed to such holders, by wire transfer, or by any other means that may be customary and commercially acceptable on the date of payment. Principal of the 1984 Series A Bonds is payable at the office of the State Treasurer in Helena, Montana, Paying Agent, or at the option of the holder at the principal office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, Paying Agent and Bond Registrar.

Any Bondholder may exchange any 1984 Series A Bond or Bonds for an equal aggregate principal amount of fully registered 1984 Series A Bonds of the same maturity and interest rate, in denominations of \$5,000 or any integral multiple thereof, upon surrender of such Bond or Bonds at the corporate trust office of the Bond Registrar, together with a written instrument of transfer satisfactory to the Bond Registrar.

Redemption Provisions

Sinking Fund Redemption. The 1984 Series A Bonds due December 1, 1999 will be subject to mandatory redemption through sinking fund installments on December 1, 1997 and on each December 1 thereafter to maturity. The 1984 Series A Bonds due December 1, 2005 will be subject to mandatory redemption through sinking fund installments on December 1, 2000 and on each December 1 thereafter to maturity. The redemption price will be 100% of the principal amount of 1984 Series A Bonds so to be redeemed plus interest accrued to the redemption date. Such sinking fund installments will be sufficient to redeem the principal amount of 1984 Series A Term Bonds as specified below:

1984 Series A Term Bonds Due December 1, 1999		1984 Series A Term Bonds Due December 1, 2005	
Year	Amount	Year	Amount
1997.....	\$500,000	2000.....	\$ 670,000
1998.....	550,000	2001.....	740,000
1999 (Maturity)	610,000	2002.....	815,000
		2003.....	900,000
		2004.....	990,000
		2005 (Maturity)	1,090,000

The amounts accumulated for each sinking fund installment may be applied by the State Treasurer, at the direction of the Board, prior to the forty-fifth day preceding the due date of such sinking fund installment to the purchase of 1984 Series A Bonds at prices not exceeding the applicable redemption price, plus accrued interest to the date of purchase. Upon any purchase or redemption of Bonds for which sinking fund installments shall have been established other than by application of sinking fund installments, an amount equal to the principal amount of the Bonds so purchased or redeemed is to be credited toward such sinking fund installments.

Optional Redemption. The 1984 Series A Bonds will be subject to redemption at the option of the Board on and after December 1, 1994, either as a whole at any time or in part on any interest payment date (and by lot if less than all of a maturity is to be redeemed), at the redemption prices expressed as percentages of the principal amount set forth below, plus interest accrued to the redemption date:

<u>Redemption Period (both dates inclusive)</u>	<u>Redemption Price</u>
December 1, 1994 to November 30, 1995.....	102%
December 1, 1995 to November 30, 1996	101
December 1, 1996 and thereafter	100

Notice of Redemption. When any 1984 Series A Bonds are to be redeemed, the Bond Registrar will notify the holders of such Bonds of such redemption by mailing a notice of redemption to the addresses of such holders as shown upon the registration books. Such notice will be made not more than sixty and not less than thirty days before the redemption date.

SECURITY AND SOURCES OF PAYMENT FOR THE 1984 SERIES A BONDS

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by Pledged Tax Revenues, the 1984 Series A Pledged Project Revenues, the amounts, if any, in the Surplus Project Revenue Account and the Debt Service Reserve Account, and the proceeds of the 1984 Series A Bonds, as defined in the Resolutions and herein. On each bond payment date the State Treasurer will pay the debt service due on the 1984 Series A Bonds by drawing upon the 1984 Series A Pledged Project Revenues in the 1984 Series A Debt Service Account, the amounts, if any, in the Surplus Project Revenue Account, the Pledged Tax Revenues in the Trust Fund Bond Account, the amounts in the Debt Service Reserve Account, and the Bond proceeds in the 1984 Series A Bond Proceeds Account, in that order. These sources of payment and security are described below.

Pledged Tax Revenues: The State levies a severance tax on coal produced in the State. See "The Coal Severance Tax" herein. The State Constitution requires fifty percent of the revenues from the coal severance tax to be deposited into the Coal Severance Tax Trust Fund. The Enabling Act and the General Resolution require the principal amount of the coal severance tax revenues dedicated to the Coal Severance Tax Trust Fund to be held in the Trust Fund Bond Account for up to six months, and pledge the amounts in the Trust Fund Bond Account (the "Pledged Tax Revenues") for payment of the debt service on the Bonds. Investment income earned on amounts in the Trust Fund Bond Account is transferred to the Trust Fund Income Account as it is received, and is not pledged for payment of the Bonds. On June 30 and December 31 of each year the Pledged Tax Revenues remaining in the Trust Fund Bond Account after payment of the debt service due on the Bonds are transferred to the Trust Fund Permanent Account. The amounts in the Trust Fund Permanent Account are not pledged for payment of the Bonds.

1984 Series A Pledged Project Revenues: The repayments of principal, interest and penalties received with respect to the Loans (the "1984 Series A Pledged Project Revenues") will be deposited as received into the 1984 Series A Debt Service Account and are pledged and available solely for payment of the 1984 Series A Bonds and any additional Bonds hereafter made payable from the 1984 Series A Debt Service Account. It is expected that the 1984 Series A Pledged Project Revenues will not be sufficient to pay all of the debt service due on the 1984 Series A Bonds, and that part of such debt service will be paid from Pledged Tax Revenues. On December 31 of each year all amounts, except for an amount not to exceed one-twelfth of the debt service due on the 1984 Series A Bonds during the next year, will be transferred from the 1984 Series A Debt Service Account to an account that is not pledged for payment of the Bonds.

Debt Service Reserve Requirement: The Resolutions require an amount of Bond proceeds and Pledged Tax Revenues equal to the maximum annual principal and interest due on all outstanding Bonds to be held in the Debt Service Reserve Account. The amounts in the Debt Service Reserve Account are pledged and held as security for all Bonds issued under the General Resolution.

Surplus Project Revenue Account: The General Resolution creates a Surplus Project Revenue Account, and permits the State by supplemental resolution to deposit therein project revenues and other revenues, assets and property which are not otherwise pledged to the payment of any series of Bonds. The amounts in the Surplus Project Revenue Account, if any, are pledged for payment of all series of Bonds. The 1984 Series A Supplemental Resolution does not require any amounts to be transferred to the Surplus Project Revenue Account.

Bond Proceeds: If on any bond payment date the 1984 Series A Pledged Project Revenues, the Pledged Tax Revenues, and the amounts in the Surplus Project Revenue Account and the Debt Service Reserve Account are insufficient to pay the debt service due on the 1984 Series A Bonds, the Bond proceeds in the 1984 Series A Bond Proceeds Account shall be used to pay such debt service. If any 1984 Series A Bond proceeds are used to pay debt service on the 1984 Series A Bonds, the next Pledged Tax Revenues deposited into the Trust Fund Bond Account will immediately be transferred to the 1984 Series A Bond Proceeds Account to replace the Bond proceeds used to pay debt service.

Funds and Accounts

All money held in connection with the 1984 Series A Bonds will be held by the State Treasurer in the following funds and accounts:

Coal Severance Tax Trust Fund: The Constitution of the State requires fifty percent of the revenues from the State's coal severance tax to be deposited into the Coal Severance Tax Trust Fund. The Enabling Act and the General Resolution create three accounts within the Coal Severance Tax Trust Fund: a Trust Fund Bond Account, a Trust Fund Permanent Account, and a Trust Fund Income Account. The principal of the coal severance tax revenues dedicated to the Coal Severance Tax Trust Fund are deposited into the Trust Fund Bond Account, and are available for payment of debt service on the Bonds until the next June 30 or December 31, when any coal severance tax revenues not used to pay debt service are transferred to the Trust Fund Permanent Account. The amounts in the Trust Fund Permanent Account and the Trust Fund Income Account are not pledged for payment of the Bonds. See "Security and Sources of Payment for the 1984 Series A Bonds — Pledged Tax Revenues" herein.

1984 Series A Bond Proceeds Account: The General Resolution requires a separate bond proceeds account to be created for each series of Bonds. The proceeds of the 1984 Series A Bonds will be held in the 1984 Series A Bond Proceeds Account until used to make the Loans described in Appendix A herein. All investment income earned on the amounts in the 1984 Series A Bond Proceeds Account will be transferred to the 1984 Series A Debt Service Account. If any 1984 Series A Bond proceeds are used to pay debt service on the 1984 Series A Bonds, then the next Pledged Tax Revenues deposited into the Trust Fund Bond Account will be used to replace the amount so used.

1984 Series A Debt Service Account: The Supplemental Resolution creates a separate debt service account for the 1984 Series A Bonds. The 1984 Series A Pledged Project Revenues and investment income earned on the 1984 Series A Bond proceeds will be deposited into the 1984 Series A Debt Service Account. Each December 31 all amounts will be transferred from the 1984 Series A Debt Service Account except for an amount not to exceed one-twelfth of the debt service due on the 1984 Series A Bonds during the next year. The amounts in the 1984 Series A Debt Service Account are pledged solely for payment of the 1984 Series A Bonds and any additional Bonds hereafter made payable therefrom. See "Security and Sources of Payment for the 1984 Series A Bonds" herein.

Debt Service Reserve Account: The General Resolution establishes a Debt Service Reserve Account for all series of Bonds, and requires an amount equal to the maximum annual principal and interest due on the outstanding Bonds to be held in the Debt Service Reserve Account. Investment income earned on 1984 Series A Bond proceeds held in the Debt Service Reserve Account will be deposited into the 1984 Series A Debt Service Account; investment income earned on Pledged Tax Revenues held in the Debt Service Reserve Account will be transferred to the Trust Fund Income Account or to such other account as may be required by law.

Surplus Project Revenue Account: When required by a supplemental resolution, amounts will be deposited into the Surplus Project Revenue Account. The amounts in the Surplus Project Revenue Account are pledged for payment of all series of Bonds.

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graph TD
    A[1984 SERIES A BOND PROCEEDS ACCOUNT] --> B[LOANS FOR PAYMENT OF COSTS OF 1984 SERIES A PROJECTS]
    A --> C[OTHER PROJECT REVENUES NOT NEEDED TO PAY DEBT SERVICE ON OTHER SERIES OF BONDS]
    C --> D[SURPLUS PROJECT REVENUE ACCOUNT]
    D --> E[TRANSFER EACH DECEMBER 31 TO A FUND DETERMINED BY SUPPLEMENTAL RESOLUTION]
    D --> F[AMOUNTS NEEDED TO PAY DEBT SERVICE]
    F --> G[1984 SERIES A DEBT SERVICE ACCOUNT]
    G --> H[DEBT SERVICE PAYMENTS ON 1984 SERIES A BONDS]
    G --> I[AMOUNT NEEDED, IF ANY, TO FUND THE DEBT SERVICE RESERVE ACCOUNT]
    I --> J[DEBT SERVICE RESERVE ACCOUNT]
    J --> K[AMOUNTS NEEDED TO PAY DEBT SERVICE]
    K --> L[1984 SERIES A DEBT SERVICE ACCOUNT]
    L --> M[TRUST FUND PERMANENT ACCOUNT]
    M --> N[TRANSFER EACH JUNE 30 AND DECEMBER 31]
    N --> O[TRUST FUND ACCOUNT]
    O --> P[COAL SEVERANCE TAX REVENUES]
    P --> Q[TRUST FUND ACCOUNT]
    Q --> R[1984 SERIES A PROJECT REVENUES]
    R --> S[1984 SERIES A DEBT SERVICE ACCOUNT]
    S --> T[DEBT SERVICE PAYMENTS ON 1984 SERIES A BONDS]
  
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The flowchart illustrates the financial flow for the 1984 Series A Bond Proceeds Account. It starts with the 1984 Series A Bond Proceeds Account, which can be used for loans for the payment of costs of 1984 Series A projects or for other project revenues not needed for debt service. These other project revenues flow into a Surplus Project Revenue Account, which is then transferred to a fund determined by supplemental resolution each December 31. The Surplus Project Revenue Account also provides amounts needed to pay debt service, which flow into the 1984 Series A Debt Service Account. This account is used for debt service payments on 1984 Series A bonds and also provides amounts needed to fund the Debt Service Reserve Account. The Debt Service Reserve Account, in turn, provides amounts needed to pay debt service, which also flow into the 1984 Series A Debt Service Account. The 1984 Series A Debt Service Account also provides amounts needed to pay debt service, which flow into the Trust Fund Permanent Account. The Trust Fund Permanent Account is transferred to the Trust Fund Account each June 30 and December 31. The Trust Fund Account is funded by Coal Severance Tax Revenues and 1984 Series A Project Revenues, which also flow into the 1984 Series A Debt Service Account.

ORDER IN WHICH ACCOUNTS ARE DRAWN UPON
TO PAY DEBT SERVICE ON 1984 SERIES A BONDS:

1. 1984 SERIES A DEBT SERVICE ACCOUNT
2. SURPLUS PROJECT REVENUE ACCOUNT
3. TRUST FUND BOND ACCOUNT
4. DEBT SERVICE RESERVE ACCOUNT
5. 1984 SERIES A BOND PROCEEDS ACCOUNT

Additional Bonds

The General Resolution permits the issuance of additional Bonds. Such Bonds cannot have a lien on the Pledged Tax Revenues and the 1984 Series A Pledged Project Revenues superior to the lien of the 1984 Series A Bonds on such revenues. In the General Resolution, the Board covenants not to issue any additional Bonds unless the average amount of coal severance tax revenues deposited annually into the Trust Fund Bond Account during the three fiscal years preceding the issuance of such additional Bonds is at least twice the maximum annual debt service on such additional Bonds and all other outstanding Bonds during any future fiscal year. One or more series of Bonds may be issued and made payable from the 1984 Series A Pledged Project Revenues deposited in the 1984 Series A Debt Service Account.

Rate Covenant

The State Legislature has provided in the Enabling Act and the State has covenanted in the General Resolution to provide for the continued assessment, levy, collection and deposit into the Trust Fund Bond Account of coal severances taxes in amounts which, together with the other revenues, assets and moneys pledged for payment of the Bonds, will be sufficient to pay as due the debt service on the Bonds.

Refunding Bonds

The General Resolution permits the issuance of refunding Bonds to refund all or any portion of any one or more series of Bonds. Refunding Bonds may be authenticated and delivered only upon receipt by the Bond Registrar of, among other things, irrevocable instructions to an escrow agent to pay when due or to redeem all the Bonds to be refunded and either (i) moneys sufficient to pay the principal amount at the applicable redemption price of the Bonds to be refunded, together with accrued interest thereon to the maturity date or redemption date, or (ii) direct obligations of or obligations guaranteed by the United States of America, the principal and interest on which when due, together with any moneys deposited with the escrow agent or Paying Agent, will be sufficient to pay such principal or redemption price and accrued interest. Any such moneys and obligations are required to be held irrevocably in trust for the Bondholders by the escrow agent.

Defeasance

Payment of the Bonds may be provided for and the lien and pledge created by the Resolutions discharged by the deposit in trust with an escrow agent duly appointed by the Board pursuant to the General Resolution, or with any Paying Agent other than the State Treasurer, of moneys in an amount, or Government Obligations the principal of and interest on which when due will provide moneys which will be sufficient to pay when due the principal of, premium, if any, and interest on the Bonds at maturity or upon prior call for redemption. The General Resolution defines Government Obligations as direct general obligations of the United States of America or obligations the payment of principal of and interest on which is, in the opinion of the Attorney General of the United States, fully and unconditionally guaranteed by the United States of America.

APPLICATION OF 1984 SERIES A BOND PROCEEDS

The proceeds from the sale of the 1984 Series A Bonds, exclusive of accrued interest, will be applied as follows:

Project costs.....	\$ 9,558,445
Deposit to the Debt Service Reserve Account (1)	602,812
Underwriters' discount and costs of issuance	323,743
Principal amount of 1984 Series A Bonds	<u>\$10,485,000</u>

- (1) The balance of the Debt Service Reserve Requirement will be funded from coal severance tax revenues transferred from the Trust Fund Bond Account to the Debt Service Reserve Account at the time of delivery of the Bonds.

DEBT SERVICE REQUIREMENTS

The following table sets forth the installments of principal and interest on the 1984 Series A Bonds.

Debt Service Requirements 1984 Series A Bonds

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total 1984 Series A Debt Service</u>
1985.....	\$ —	\$ 842,227(1)	\$ 842,227
1986.....	190,000	1,004,260	1,194,260
1987.....	205,000	990,467	1,195,467
1988.....	220,000	974,948	1,194,948
1989.....	235,000	957,760	1,192,760
1990.....	255,000	938,512	1,193,512
1991.....	275,000	916,969	1,191,969
1992.....	300,000	892,875	1,192,875
1993.....	325,000	865,906	1,190,906
1994.....	350,000	835,938	1,185,938
1995.....	385,000	802,477	1,187,477
1996.....	420,000	765,028	1,185,028
1997.....	460,000	723,437	1,183,437
1998.....	500,000	676,275	1,176,275
1999.....	550,000	623,119	1,173,119
2000.....	610,000	564,394	1,174,394
2001.....	670,000	499,175	1,169,175
2002.....	740,000	426,912	1,166,912
2003.....	815,000	347,219	1,162,219
2004.....	900,000	259,325	1,159,325
2005.....	990,000	162,462	1,152,462
2006.....	1,090,000	55,863	1,145,863
Total.....	<u>\$10,485,000</u>	<u>\$15,125,548</u>	<u>\$25,610,548</u>

(1) Represents 10 months' interest.

THE COAL SEVERANCE TAX

Coal Severance Tax Rates

Since July 1, 1975, the State has imposed a severance tax on each ton of coal produced in the State. The rate at which the State's coal severance tax is imposed is determined by the heating quality of the coal and whether the coal was mined on the surface or underground. The current coal severance tax rates are summarized in the following table:

Coal Severance Tax Rates

<u>Heating Quality (BTU's per pound of coal)</u>	<u>Surface Mining</u>	<u>Underground Mining</u>
Under 7,000.....	12 cents per ton or 20% of contract sales price, whichever is greater.	5 cents per ton or 3% of contract sales price, whichever is greater.
7,000-8,000.....	22 cents per ton or 30% of contract sales price, whichever is greater.	8 cents per ton or 4% of contract sales price, whichever is greater.
8,000-9,000.....	34 cents per ton or 30% of contract sales price, whichever is greater.	10 cents per ton or 4% of contract sales price, whichever is greater.
Over 9,000.....	40 cents per ton or 30% of contract sales price, whichever is greater.	12 cents per ton or 4% of contract sales price, whichever is greater.

The State's coal severance tax is calculated on the "contract sales price" of coal produced in the State. The "contract sales price" of coal is calculated by deducting various taxes, fees, and royalties from the purchase price of that coal at the mine prior to transportation (the "F.O.B. price"). The first 20,000 tons of annual production by each producer is exempt from the coal severance tax. The following taxes and royalties are deducted from the F.O.B. price when calculating the "contract sales price":

State Taxes, including the Montana coal severance tax, the Montana resource indemnity tax and the county gross proceeds (property) tax.

Federal Taxes and Fees, including the black lung tax and the reclamation fee.

Federal, State and Indian Royalties: Under legislation enacted in 1983, when calculating the contract sales price of coal, coal producers can deduct the following amounts of royalties paid to the State, the federal government and federally recognized Indian tribes:

July 1984 - June 1985	25% of royalties in excess of 15 cents per ton
July 1985 - June 1986	50% of royalties in excess of 15 cents per ton
July 1986 - June 1987	75% of royalties in excess of 15 cents per ton
July 1987 - June 1988	100% of royalties in excess of 15 cents per ton

In calendar year 1982, the last year for which data is available, Montana coal producers paid \$9,516,623 in royalties to the federal government, \$997,587 to the State, and \$2,603,346 to Indian tribes. The amount of royalties paid by Montana coal producers is expected to increase as current federal leases which assess a royalty of 15 cents per ton expire and are replaced by leases which assess a royalty of 12.5% of the value of coal produced. The State's Office of Budget and Program Planning estimates that this legislation will permit coal producers to take deductions of approximately \$1.47 million in fiscal year 1985, \$3.40 million in fiscal year 1986, \$5.70 million in fiscal year 1987 and \$8.30 million in fiscal year 1988, with a corresponding reduction in the effective rate of the coal severance tax. The effect on coal severance tax revenues of this increase in royalty payments and royalty deductions has been reflected in the State's coal severance tax revenue projections.

Imputed Value for Processed Coal: In addition, under legislation enacted in 1983, if a coal producer improves the quality of coal by drying, cleaning or any other beneficiation process, it can calculate its coal severance tax based on the selling price of similar coal that did not require processing, rather than the actual F.O.B. price of the coal. Because the imputed value will be lower than the F.O.B. price, this adjustment will reduce the effective rate of the coal severance tax. To date no coal producer has utilized the adjustment permitted by this legislation.

Although over 99% of the coal produced in the state is taxed at 30% of "contract sales price", during 1983 the average effective rate at which the coal severance tax was imposed on the F.O.B. price of all coal produced in the State was 20.8%. The State's Department of Revenue estimates that after July 1, 1987, when the royalty deduction reaches its final level, the overall effective rate of the coal severance tax will be approximately 18.5%.

In 1981 the United States Supreme Court held in *Commonwealth Edison Co. v. State of Montana* that the State's coal severance tax and the rate at which it is imposed do not violate either the commerce or the supremacy clause of the United States Constitution. During the last few years, several bills have been introduced in Congress to limit the rate at which states can impose severance taxes, but no legislation on this subject has been enacted.

Historical Coal Severance Tax Revenues

Coal producers are required to calculate their coal severance tax for each calendar quarter based on actual production, and to pay the tax to the State within thirty days after the end of each quarter. The total revenues received by the State during the last five years from the coal severance tax and the amounts of this tax deposited into the Coal Severance Tax Trust Fund are set forth in the following table:

Historical Coal Severance Tax Revenues

<u>Fiscal Year Ended June 30</u>	<u>Average Contract Sales Price (Per Ton)</u>	<u>Production (Thousands of Tons)</u>	<u>Total Revenues (\$000)</u>	<u>Deposits to the Trust Fund (\$000)</u>
1979	\$5.435	26,319	\$42,689	\$10,627(1)
1980	7.301	34,360	75,125	23,024(1)
1981	7.857	30,089	70,415	35,208
1982	9.005	31,936	86,187	43,093
1983	9.980	27,798	80,045(2)	40,022
1984	9.868(3)	30,188(3)	82,823(2)(3)	41,412(3)

- (1) Effective January 1, 1980, the percentage of coal severance tax revenues required to be deposited into the Coal Severance Tax Trust Fund increased from 25% to 50%.
- (2) Does not include \$3,074,670 in fiscal year 1983 and \$6,331,706 in fiscal year 1984 deposited into an escrow account pending resolution of the lawsuit brought against the State by the Crow Indian Tribe. See "Litigation" herein.
- (3) Preliminary.

Projections of Coal Severance Tax Revenues

The State Office of Budget and Program Planning is responsible for preparing projections of coal severance tax revenues. Set forth below are projections of coal severance tax revenues through fiscal year 1990. The forecasts are based upon projections of the annual contract sales price per ton and the production levels during these periods. The forecast of the contract sales price per ton of Montana coal is based on the U.S. producer price index for coal as forecast by Chase Econometrics, Incorporated. Production estimates were derived through surveys of Montana coal producers. The projected total gross value of Montana coal is calculated by multiplying the projected contract sales price per ton by the projected number of tons of production. The predominant tax rate (30% of contract sales price) is then applied to estimate tax collections. The projections do not include the revenues that are expected to be held in escrow pending resolution of the case brought by the Crow Indian Tribe against the State. See "Litigation" herein.

Projected Coal Severance Tax Revenues

<u>Fiscal Year Ending June 30</u>	<u>Calendar Year Contract Sales Price (Per Ton)</u>	<u>Calendar Year Production (Thousands of Tons)</u>	<u>Fiscal Year Tax Revenues (\$000)</u>	<u>Deposits To The Trust Fund (\$000)</u>
1985(1)	\$10.308	33,104	\$ 99,730	\$49,865
1986	10.614	34,094	103,919	51,960
1987	11.256	34,184	110,280	55,140
1988	12.247	33,932	117,742	58,871
1989	13.434	34,014	127,773	63,886
1990	14.644	34,097	140,261	70,130

(1) Reflects sales of coal by Western Energy Co. to Montana Power Co. for two new 750 MW mine-mouth plants, Colstrip Units 3 and 4.

In the preparation of these projections of future coal severance tax revenues, the State Office of Budget and Program Planning has made certain assumptions with respect to conditions, events and circumstances which may occur in the future. While the State Office of Budget and Program Planning believes these assumptions are reasonable for the purposes of making an estimate of the State's future coal severance tax revenues, the actual results may differ materially from the forecast as influenced by the conditions, events and circumstances which actually occur. In addition, the State Office of Budget and Program Planning has used and relied upon certain information provided by others. While the sources of such information are believed to be reliable, the State has not independently verified the information and offers no assurances with respect thereto.

Coverage of Debt Service by Pledged Tax and Project Revenues

The extent to which the projected Pledged Tax Revenues and Pledged Project Revenues are expected to cover the estimated debt service on the 1984 Series A Bonds through fiscal year 1990 is set forth in the following table:

**Projected Pledged Tax and Project Revenues and Coverage
(\$000)**

	Fiscal Years Ending June 30					
	1985	1986	1987	1988	1989	1990
Projected Pledged Tax Revenues(1)	\$49,865.0	\$51,959.5	\$55,140.0	\$58,871.0	\$63,886.5	\$70,130.5
Projected Pledged Project Revenues and Investment Income(2)	601.0	899.2	956.5	940.3	930.2	1,010.8
Total Pledged Tax and Project Revenues(3)	\$50,466.0	\$52,858.7	\$56,096.5	\$59,811.3	\$64,816.7	\$71,141.3
1984 Series A Bond Debt Service Requirements	\$ 842.2	\$ 1,194.3	\$ 1,195.5	\$ 1,194.9	\$ 1,192.8	\$ 1,193.5
Ratio of Pledged Tax and Project Revenues to 1984 Series A Bond Debt Service Requirements	59.9x	44.3x	46.9x	50.1x	54.3x	59.6x

- (1) State Office of Budget and Program Planning—See “Projections of Coal Severance Tax Revenues” herein.
- (2) State Department of Natural Resources and Conservation based upon the repayment terms established for the Loans. Investment Income is based on an assumed rate of 11%.
- (3) Does not reflect the effect of the June 30 and December 31 transfer of all funds held in the Trust Fund Bond Account to the Trust Fund Permanent Account.

Allocation of Coal Severance Tax Revenues

Coal Severance Tax Revenues received by the State are presently allocated in the following manner:

- (1) 50% of the revenues are deposited into the Coal Severance Tax Trust Fund;
- (2) the remaining 50% of the coal severance tax revenues are applied to various purposes as follows:
 - (a) 37.5% of such revenues are deposited into a local impact and education trust fund;
 - (b) 10% of such revenues are placed in a fund for state equalization aid to public schools of the State;
 - (c) 14.5% of such revenues are deposited into various funds to benefit parks and recreation, the arts, libraries, alternative energy development, renewable resource development, water development, county land planning and conservation districts; and
 - (d) the balance (38%) of such revenues are deposited into the State’s General Fund and are available for appropriation for any public purpose.

Beginning July 1, 1986, 6% of the coal severance tax revenues not deposited into the Coal Severance Tax Trust Fund will be deposited into a Highway Reconstruction Trust Fund. The percentage of revenues deposited into the Highway Reconstruction Trust Fund will increase to 12% on July 1, 1987, and be eliminated on June 30, 1993. The balance of funds after deposits into the Coal Severance Tax Trust Fund and the Highway Reconstruction Trust Fund will be allocated as reflected above.

CERTAIN FACTORS AFFECTING THE COAL INDUSTRY GENERALLY

The coal industry in the United States is heavily dependent upon the demand for electric power with over 70% of U.S. coal production and 80% of U.S. coal consumption related to electric power generation. The electric utility industry in general is currently experiencing problems in a number of areas including, among others, the effects of inflation upon the costs of operations and upon construction expenditures, availability and high cost of capital, availability and increased cost of fuel for the generation of electric energy, fluctuating rates of load growth, complicity with environmental and governmental regulations, licensing and other delays affecting the construction of new facilities and the effects of conservation on the use of electric energy. In addition, there currently exists a general overabundance of economically mineable coal and mining capacity. The State is unable to predict the extent to which its coal severance tax revenues will be affected by such factors.

MONTANA COAL PRODUCTION

General

Montana coal production is generally characterized by relatively new and modern mines, predominately surface mines, which produce low sulphur coal. Surface mining operations can accommodate more rapid production increases and are also characterized by lower labor requirements than subsurface mining operations. In 1981, Montana had total identified resources of 176.8 billion tons of sub-bituminous coal and 112.5 billion tons of lignite, which comprised 36% and 24% respectively of the United States totals. Of the identified resources, approximately 50 billion tons are considered to be coal suitable for surface mining. Approximately one-half of the coal has less than 0.5% sulphur. Low sulphur coal is preferred to high sulphur coal in meeting the current emission standards established by the United States Environmental Protection Agency.

Coal production in the State increased from 7.1 million tons in 1971 to 33.4 million tons in 1981 and amounted to an estimated 28.6 million tons in 1983. During the past ten years both the tonnage and value of coal produced in Montana has generally increased more rapidly than the tonnage and value of coal produced in the United States as a whole. Growth in Montana coal production is principally attributable to low cost strip mining and the availability of low sulphur coal suitable for consumption by the electric power industry. The following table indicates the tonnage and value of coal produced annually from 1973 to 1983 in Montana and the United States, and the percentage of Montana production in relation to U.S. production.

Coal Production Montana and the United States

Calendar Year	Tonnage (Millions)			Value (Million)		
	Montana(1)	United States(2)	Montana Percentage	Montana(1)	United States(2)	Montana Percentage
1973.....	10.7	598.6	1.79%	\$ 30.2	\$ 5,106.0	0.59%
1974.....	14.1	610.0	2.31	54.2	9,608.0	0.56
1975.....	22.1	654.6	3.38	110.1	12,588.0	0.87
1976.....	26.3	684.9	3.84	150.2	13,308.0	1.13
1977.....	27.2	697.2	3.90	158.7	13,819.0	1.15
1978.....	26.6	670.2	3.97	181.5	14,597.0	1.24
1979.....	32.5	781.1	4.16	334.7	18,356.0	1.82
1980.....	29.8	835.4	3.57	331.4	21,720.0	1.53
1981.....	33.4	815.2	4.10	390.4	21,522.0	1.81
1982.....	26.8	838.1	3.20	363.3	22,752.0	1.60
1983.....	28.6(3)	784.9(3)	3.64	363.6(3)	21,481.1(3)	1.69

(1) State Department of Revenue.

(2) United States Department of Energy, Energy Information Administration.

(3) Preliminary.

Long Term Production Contracts

Over 90% of Montana coal production is produced under long term contracts between coal producers and electric utility purchasers. Long term contracts for sale of coal produced in the State of Montana are summarized in the following table:

Long Term Coal Contracts(1)

<u>Producer</u>	<u>Purchaser</u>	<u>Annual Contract Tonnage (Tons/Year)</u>	<u>Contract End Date</u>
Peabody Coal Company.....	Minnesota Power & Light Co.	4,200,000	12/31/93
Decker Coal Company	Detroit Edison	4,100,000	3/31/01
	Commonwealth Edison Co.	4,850,000	12/31/97
	Lower Colorado River Authority(2)	3,300,000	12/31/03
	Upper Peninsula Generating Co.	570,000	12/31/87
Westmoreland Resources, Inc.	Wisconsin Power and Light Co.	300,000	12/31/93
Western Energy Co.	Lake Superior District Power Co.	50,000	12/31/89
	Montana Power Co.	500,000	12/31/89
	Montana Power Co.	1,500,000	12/31/09
	Montana Power Co.	5,000,000	12/31/19
	Northern States Power Co.	2,500,000	12/31/93
	Northern States Power Co.	4,000,000	12/31/95
	Wisconsin Power and Light Co.	1,700,000	12/31/94

- (1) Montana Office of Budget and Program Planning based upon review of Federal Energy Regulatory Commission data.
- (2) Montana Office of Budget and Program Planning based upon producer and utility announcements.

Annual contract tonnage is the amount of coal a producer commits to supply a purchaser at a contract price. Contract tonnage for production and actual coal production levels differ in that the contracts permit electric utilities, in response to weak demand for electricity, to exercise minimum tonnage provisions in their contracts. Generally the actual annual production tonnage is lower than the contracted tonnage. In addition to the contracts listed above, Montana producers sell quantities of coal on a spot market basis and in small contracted amounts. Other purchasers of Montana coal in recent years include Houston Power and Light, Central Illinois Light Company, Marquette Board of Light and Power (Michigan), United Power Agency (Minnesota), Minnesota Department of Public Utility, Willmar Municipal Utility (Minnesota), Montana-Dakota Utilities, Dairyland Cooperative (Wisconsin), and Madison Gas and Electric (Wisconsin).

Long term contracts for coal production in Montana provide for adjustments in the purchase price of coal based upon various formulas that are negotiated between the producer and the electric utility/purchaser. Generally the purchase price adjustment formula is related to increases and decreases in the consumer price index, the wholesale price index for construction machinery and equipment, and average

hourly wage rates. Therefore, even though the tonnage of coal produced under a contract may not vary significantly from year to year, the price of coal purchased under the contracts is adjusted under a formula to increase or decrease in relation to the relative cost of production of the coal from year to year.

Rail Contracts for Coal Transport

Under the Staggers Rail Act enacted by Congress in 1980, railroads are no longer prohibited from entering into long term coal hauling agreements with coal burning utilities. The new coal hauling contracts offer the utilities a greater degree of stability regarding coal transportation costs, and also permit utilities to develop competition for coal transportation costs among railroads. The Montana coal producers are presently only served by Burlington Northern Railroad. Burlington Northern has negotiated contracts with numerous electric utilities in the Montana-Wyoming coal market area, and this trend for long term transportation contracts is expected to continue. The durations of the new transportation contracts are co-terminous with existing coal production contracts.

Coal Production and Land Status

The Department of State Lands estimates that coal reserves in Montana are owned 65% by the federal government, 18% by private companies, 12% by Indian tribes, and 5% by the State of Montana. Federal ownership is particularly predominant in the Powder River Basin, a portion of which is located in Montana. The Powder River Basin is the most important coal region in the western states and contains 40% of the surface mineable coal resources in the entire United States. Over 75% of the coal in the portion of the Powder River Basin region within Montana's boundaries is controlled by the federal government. State coal and coal owned by the Indian tribes account for less than 10% of the reserves in the Montana region of the Powder River Basin.

The major private owner of coal in Montana is the Burlington Northern Railroad, which is the nation's largest private coal owner with 14 billion tons of reserves. Like other land grant railroads, the Burlington Northern received land and mineral rights from the federal government during the construction of its rail lines. The land grants are in alternate square mile tracts "checkerboarded" along the railroad route and can only be easily developed if adjacent lands are acquired or leased.

Approximately one third of Montana coal production occurs on federal leased lands, with the remaining production located on private and state-owned lands. The Crow Indian Tribe has filed suit against the State of Montana to prevent the imposition of coal severance taxes by the State of Montana on coal produced on Crow Reservation lands or on coal which is owned by the Crow Indian Tribe which is produced on off-reservation lands. See "Litigation" herein. Currently there is no mining of coal on the Crow Indian Reservation, but some mines operated by Westmoreland Resources Inc. are producing coal under a lease, with the Crow Indian Tribe on lands that are not within reservation boundaries. None of the other coal production in the State is subject to the current litigation. Westmoreland Resources Inc. production subject to the current litigation was 1.35 million tons in fiscal year 1983, which represented approximately 4.9% of the overall coal production in the State. It is not possible to determine at this time what the ultimate impact will be on the source of future coal production in the State if the Crow Indian Tribe is successful in its litigation efforts. The amount of coal reserves on the reservation and the amount of coal owned by the Crow Indian Tribe in off-reservation lands (the "Crow ceded area") are not precisely determined. However, if the Crow Indian Tribe is successful in its assertion that the marketability of coal on reservation lands is dependent on the absence or presence of the State's coal severance tax, then future production may shift from off-reservation sources to on-reservation sources.

Electric Utility Industry Demand for Coal

Virtually all of Montana's coal is consumed by electric utilities. When a utility makes a decision to purchase coal from a specific mine, it usually constructs generation facilities or modifies existing boilers and installs pollution control equipment to burn the coal specifically from that mine. It is often difficult and costly for an electric utility to switch coal sources because its boilers and pollution control equipment are designed according to the specific qualities and heat content of coal from a particular mine. As a result, coal production contracts are generally long-term and often contain options for extension for the time period the power generation plant is retained in service.

The market area for Montana coal supplied to electric utilities is principally in the states of Montana, Michigan, Minnesota, and Wisconsin, and a portion of the State of Iowa. These states are served by Burlington Northern Railroad.

BOARD OF EXAMINERS

Under the Enabling Act, the Board of Examiners is authorized to issue Coal Severance Tax Bonds to finance the cost of water development projects and activities. The Board of Examiners consists of the Governor, the Secretary of State and the Attorney General.

MONTANA BOARD OF NATURAL RESOURCES AND CONSERVATION

The Board of Natural Resources and Conservation is composed of seven members who are appointed by the Governor, subject to confirmation by the State Senate, to four-year terms. The members are informed and experienced in the subjects of natural resources and conservation. The current members of the Board are as follows:

<u>Member</u>	<u>Occupation</u>	<u>Term Expires</u>
Gordon G. Holte, Chairman	Conservationist and corporation manager	1/1/87
Charles L. Hash, Vice Chairman.....	Attorney	1/7/85
Ann Mary Dussault.....	Missoula County commissioner and former state legislator	1/1/87
Land M. Lindbergh	Rancher and former member of the Fish and Game Commission	1/1/87
William A. Shields	President of the College of Great Falls	1/1/87
Richard H. Spaulding	Manager of the Billings office of a national brokerage firm	1/7/85
Cecil Weeding	Rancher and former state legislator	1/7/85

The principal responsibilities of the Board of Natural Resources and Conservation are to adopt administrative rules, act on proposed reservations of water, make decisions under the Montana Major Facility Siting Act, adopt flood plain delininations, and oversee the financing of state water projects.

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Responsibilities and Organization

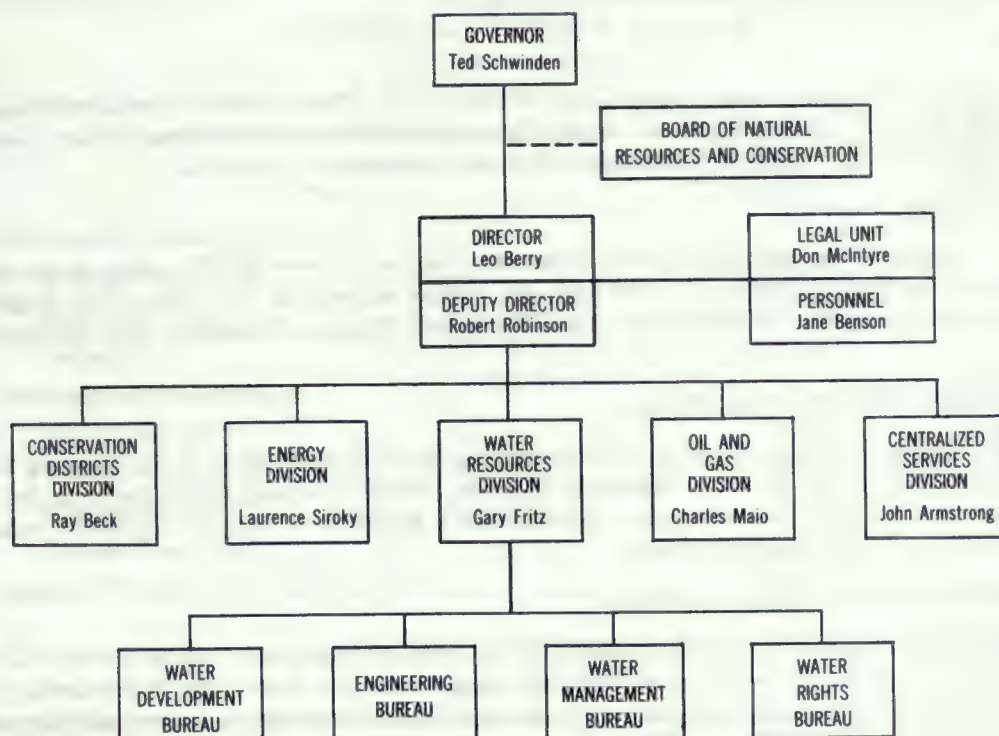
The Department was established by the State Legislature in 1971 to replace and carry on the duties of the State Water Board. The Department's principal duties are (i) planning for and management of the State's water resources; (ii) administration, filing, recording, and enforcement of the State's water rights; (iii) administration of the water development financing program under which the 1984 Series A Bonds are being issued; (iv) administration and maintenance of State owned water projects; (v) planning and implementation of energy conservation programs; (vi) enforcement of the State's Major Facility Siting Act and Environmental Protection Act; (vii) provision of coordination, funding and administrative assistance to the State's 58 conservation districts; (viii) regulation of the drilling, production and plugging of oil and gas wells for the purpose of preventing waste; and (ix) monitoring collection of the State's oil and gas conservation tax.

The Department is administered by a Director who is appointed by and directly responsible to the Governor. The Director has authority to set policies regarding the administration of the Department's programs and projects and the administration of the State's natural resources.

The Department's operating budget is reviewed by the Governor's office, and funds for this budget must be appropriated by the Legislature. In fiscal year 1983 the Department's total budget was \$13,820,225, of which \$220,217 was for capital improvements and \$672,413 was federal funds. For more information regarding the State's budget process, see "State of Montana" in Appendix B to this Official Statement.

As of January 1, 1984, the Department had a total of 232 employees, with 166 located in the Helena headquarters offices and 66 located in nine field offices in larger cities around the State. The Department's headquarters are located at 32 South Ewing, Helena, Montana 59620, telephone (406) 444-6699.

ORGANIZATION



The duties of the Water Resources Division and the two of its four bureaus that are principally involved in the financing of the water development program are as follows:

Water Resources Division administers Montana's water rights, prepares the State water plan, oversees all State-owned water projects, participates in floodplain management, carries out river basin studies, administers weather modification licensing and permitting, inspects dams for safety, provides technical assistance, and funds projects which develop water and other renewable resources. Four bureaus serve the division: water rights, engineering, water management, and water development.

Water Development Bureau has nine staff members in two sections. One section administers a loan and grant program that funds water development projects and water-related, non-project activities. This program includes grants and loans to private and public entities and can fund a wide variety of projects such as irrigation, municipal water and sewer, hydropower, and erosion control projects. It also provides funding and technical assistance for activities such as improvement of timber stands and agricultural loans under the Renewable Resources Development Program. The project development section provides technical assistance and conducts feasibility and technical studies. The bureau also assists 14 Yellowstone Basin conservation districts in developing their reserved water, and promotes the beneficial use of water and other renewable resources in the State.

Engineering Bureau has 16 staff members who manage 38 dams and irrigation projects owned by the State. They investigate possible addition of generating capacity to some dams, make safety inspections of nonfederal dams, offer professional services to state water users' associations and to other water-related programs, assist federal agencies in determining potential flood boundaries for all water courses and drainages, assist local governments in regulating floodprone lands and waters to prevent or alleviate threats to life and property, and provide information to help those living in floodprone areas to select flood insurance.

Personnel

Information concerning the primary administrative personnel of the Department who are involved in financing the water development program is set forth below.

Director

Leo Berry was appointed Director of the Department in 1981. Prior to that he was Commissioner of State Lands for five years and Supervisor of Legal Affairs and Staff for the Department of State Lands for three years. Director Berry received a law degree from the University of Montana.

Deputy Director

Robert J. Robinson was appointed Deputy Director of the Department in 1982. Prior to that he was Administrator of the Energy Division for one year and a fiscal analyst with the Office of the Legislative Fiscal Analyst for seven years. Mr. Robinson received a Masters Degree in Economics from the University of Missouri.

Administrator, Water Resources Division

Gary Fritz has served two years as an environmental planner, three as chief of the Planning Bureau and five as Administrator of the Water Resources Division. Prior to joining the Department he was a hydrologist for the Bureau of Reclamation. He received a Bachelor of Science degree in watershed management from Colorado State University.

Bureau Chief, Water Development Bureau

Caralee Cheney has been with the Department for five years, including two years as a water resources planner, two years as the Loan and Grant Section Chief, and one year as Chief of the Water Development Bureau. Prior to joining the Department she was a research biologist focusing on water quality impacts of resource development. She holds a doctorate in the study of fresh water systems from Wayne State University.

Bureau Chief, Engineering Bureau

Richard Bondy joined the Department in 1971 as a project engineer, and has been Chief of the Engineering Bureau for ten years. He has a Bachelor of Science degree in civil engineering from the University of Washington.

THE WATER DEVELOPMENT PROGRAM

General

The State has long recognized the importance of water to its citizens and economy. Recent legislatures have enacted legislation that (i) requires the development of a plan for the conservation, use and development of the State's water resources, (ii) creates programs to finance the development of the State's water resources, (iii) requires a general adjudication of all water rights in existence in the State as of 1973, (iv) creates a permit system for appropriations of water made after 1973, (v) establishes systems for administering and regulating water use in adjudicated watersheds, and (vi) creates a water reservation system that allows certain kinds of water users to reserve water that they expect to need in the future.

The State's water development financing program is administered by the Department's Water Development Bureau (the "Bureau"), which is part of the Department's Water Resources Division. The Bureau's technical staff reviews projects, enters into contractual agreements with project sponsors for the receipt of loan and grant funds, and monitors the implementation of the projects and the disbursement of funds. The Bureau is also responsible for collecting repayments from project sponsors during the term of the loans.

The Legislature has authorized the issuance of Coal Severance Tax Bonds to finance the following water development projects:

Coal Severance Tax Bonds Authorized By The Legislature

<u>Project</u>	<u>Total Coal Severance Tax Bonds Authorized</u>	<u>Projects Funded With 1984 Series A Bonds</u>
Hydroelectric Power Development		
Painted Rocks Dam	\$12,900,000	
Broadwater Dam.....	28,600,000	
Cooney Dam	3,850,000	
Dam Rehabilitation Projects		
Martinsdale Dam	257,000	\$ 250,000
Yellow Water Dam	92,000	
Cottonwood Dam.....	201,000	
Tongue River Dam	10,000,000	
Loans to 21 Local Government Entities	17,044,735	10,235,000
Total	<u>\$72,944,735</u>	<u>\$10,485,000</u>

The projects financed with the proceeds of the 1984 Series A Bonds are described in Appendix A to this Official Statement. Future legislatures are expected to authorize the issuance of additional amounts of Bonds.

The State does not expect to issue all of the Bonds that have been authorized by the legislature. Some of the projects may not require the full amount of financing that has been authorized, and some of the local government entities may obtain other sources of financing. In addition, Bonds cannot be issued to finance a hydroelectric project unless the State's Board of Natural Resources and Conservation determines that the project is economically feasible.

The State estimates that it will issue approximately \$10 million of Bonds per year during the next five years.

LITIGATION

There is no litigation pending or, to the knowledge of the State or the Board, threatened in any court (either state or Federal) restraining or enjoining the issuance or delivery of the 1984 Series A Bonds, or questioning (i) the proceedings under which the 1984 Series A Bonds are to be issued, (ii) the validity of the 1984 Series A Bonds, or (iii) the pledge by the State of the moneys pledged under the Resolutions for payment of the 1984 Series A Bonds.

The Crow Indian Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance tax and gross proceeds tax are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip," which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined, and the State has contested the Tribe's claim of ownership of substantial coal reserves in the Crow ceded area. The taxes are alleged to be invalid under a variety of theories, of which the most prominent are that the State taxes conflict with federal policy by preventing the marketing of Crow coal and infringe tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes are invalid, the Tribe seeks restitution from the Coal Severance Tax Trust Fund of an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc., the only company currently mining coal claimed by the Tribe, together with the interest which has accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid. The Tribe has calculated this sum to be \$92.9 million dollars.

In January 1983, the court ordered Westmoreland's severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to coal mined on the "ceded strip" since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

If the Crow Tribe is successful in its claim for restitution, State law requires the legislature to appropriate sufficient money to pay the judgment. However, the lien on Pledged Tax Revenues and the 1984 Series A Pledged Project Revenues granted to the Bondholders in the General Resolution would have priority over any subsequent appropriation made by the legislature to pay a judgment to the Crow Tribe. A judgment in favor of the Tribe could, however, affect the 1984 Series A Bonds by preventing the State from collecting the severance tax with respect to coal mined on the reservation, in the Crow ceded area, or both, which could reduce future coal severance tax receipts, and which may encourage production to shift from off-reservation sources to on-reservation sources. The extent to which a judgment in favor of the Tribe would reduce coal severance tax revenues cannot be estimated precisely.

The case was tried in January, 1984, but a decision is not expected until late 1984, and further appeals are likely regardless of the trial court's decision. The State believes that its defenses are meritorious, but the ultimate outcome of the case cannot be predicted with certainty.

FINANCIAL STATEMENTS

Financial statements of the State for the fiscal year ended June 30, 1983 and the review report thereon of the Legislative Auditor are included in Appendix C to this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all, if any, of the 1984 Series A Bonds from the State at an aggregate discount of \$252,374 from the initial public offering prices set forth on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 1984 Series A Bonds to dealers and others (including unit investment trusts and other affiliated portfolios of certain Underwriters) at prices lower than such initial public offering prices.

LEGAL INVESTMENT

The Act provides that the 1984 Series A Bonds are legal investments for any person or board in the State charged with investment of public funds, and are acceptable as security for any deposit of public money in the State.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the 1984 Series A Bonds is exempt from federal income taxes. Furthermore, in the opinion of Bond Counsel, under existing Montana laws, interest on the 1984 Series A Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

CERTAIN LEGAL MATTERS

Legal matters related to the authorization, issuance and delivery of the 1984 Series A Bonds are subject to the approval of Oitzinger & Mullendore, Helena, Montana, Bond Counsel. The opinion of Bond Counsel will be printed on the 1984 Series A Bonds in substantially the form included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Underwriters by their Counsel, Dorsey & Whitney, Minneapolis, Minnesota.

This Official Statement has been duly authorized and approved by the Governor, Secretary of State and Attorney General, as members of the Board, and by the Department.

TED SCHWINDEN, *Governor*

/s/ TED SCHWINDEN

JIM WALTERMIRE, *Secretary of State*

/s/ JIM WALTERMIRE

MIKE GREELY, *Attorney General*

/s/ MIKE GREELY

(SEAL)

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

By _____ /s/ LEO BERRY
Director

Attest:

By _____ /s/ ROBERT J. ROBINSON

DESCRIPTIONS OF THE LOANS AND PROJECTS FINANCED WITH THE 1984 SERIES A BONDS

The proceeds of the 1984 Series A Bonds will be used to make loans to certain entities to finance the water projects described in this appendix. The interest rates of the loans were set by the legislature on the basis of financial need. The term of the loans will not exceed the useful life of the project or 40 years, whichever is less. The project sponsors will make debt service payments semi-annually, except in the case of the four irrigation projects and one rural water project, where payments will be made annually.

Belgrade is a town of 2,336 people in south-central Montana. Its water system is inadequate to meet demand, and water quality is threatened by deteriorated lines and low pressures. The Department will finance improvements through purchase of a \$940,000 water system revenue bond which will carry an interest rate of 7% for 5 years, and thereafter the interest rate at which the 1984 Series A Bonds are sold.

Big Fork is an unincorporated community on Flathead Lake in northwestern Montana. The Environmental Protection Agency has required the community to construct a central sewage collection system and treatment facility. The Department will help finance 25% of project costs through purchase of a \$250,000 revenue bond issued by a newly formed county water and sewer district which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold.

The Bitterroot Irrigation District irrigates approximately 16,000 acres in southwestern Montana. The district's Three Mile Irrigation Project will convert 3,300 acres from pumped sprinkler to gravity flow systems to reduce electricity and maintenance costs. The Department will finance the project through purchase of a \$1,180,000 bond which will carry an interest rate of 3% for the term of the bond. The district will levy assessments on the property benefited by the improvements to obtain funds with which to repay the bond.

Columbia Falls is a town of 3,112 people in northwestern Montana. The Department will finance the improvement of several deteriorated water transmission and sewage collection lines in the town through purchase of a \$200,000 water system revenue bond which will carry a 7% interest rate for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

Conrad is a town of 3,074 people located in central Montana. The 10,000 foot transmission line between the town's water source and its distribution system is severely deteriorated. The Department will finance improvements through purchase of a \$250,000 water system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate of the 1984 Series A Bonds.

Culbertson is a town of 887 people in northeastern Montana. The town has been directed by the State's Department of Health and Environmental Sciences to bring its water system into compliance with the State's Safe Drinking Water Act. The Department will finance the required improvements through purchase of a \$704,000 water system revenue bond which will carry an interest rate of 5% for the term of the bond.

The East Bench Irrigation District irrigates approximately 21,800 acres in southeastern Montana. This project will convert 6,000 acres from pumped sprinkler systems to gravity flow systems to reduce electricity and maintenance costs. The Department will finance the project through purchase of a \$1,250,000 bond which will carry an interest rate of 3% for the term of the bond. The district will levy assessments on the property benefited by the improvements to obtain funds with which to repay the bond.

Ennis is a town of 660 people in southern Montana. The Environmental Protection Agency has mandated major reconstruction of the town's sewage treatment facility and collection system. The Department will finance 25% of the project cost through purchase of a \$180,000 sewer system revenue bond. The bond will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

The Geraldine County Water District is located in Choteau County in north-central Montana. District users now haul water because of inadequate and poor quality well water. The Department will finance construction of a central water system through purchase of a \$1,733,200 bond which will carry an interest rate of 6.5% for the term of the bond. The district will levy assessments on property in the district to obtain funds with which to repay the bond.

Libby is a town of 2,748 people located in northwestern Montana. The Environmental Protection Agency has mandated reconstruction of the town's sewage treatment system. The Department will finance 25% of the project through purchase of a \$590,500 sewer system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold.

The Martinsdale Project, which is part of the state-owned Upper Musselshell Project, is an offstream storage reservoir in central Montana supplying water to irrigators along the Musselshell River. Improvements to be financed with proceeds of the 1984 Series A Bonds include replacing the spillway and improving the stability of the main dam containing the reservoir. The \$250,000 cost of the improvements, with interest at the rate at which the 1984 Series A Bonds are sold, will be repaid by the irrigators who utilize the storage facility through a water user fee.

The Pondera Conservation District in central Montana includes an area served by the Pondera County Canal and Reservoir Company, which irrigates approximately 42,000 acres and provides water for several communities. The deteriorated condition of the water system is severely affecting farm production. The Department will finance district participation in the rehabilitation project through purchase of a \$555,000 bond from the district which will carry an interest rate of 6%. The district will use the proceeds of its bond to purchase a note secured by a mortgage in real property from the Canal Company. The bond issued by the district will be repaid with the note repayments received from the Canal Company.

The Power-Teton Water and Sewer District is located in west-central Montana. The Environmental Protection Agency has mandated construction of a central sewage collection system and treatment facility by the district. The Department will finance 25% of the costs of the project through purchase of a \$121,370 bond which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold. The district will levy assessments on the property in the district to obtain funds with which to repay the bond.

The Sage Creek Water District is located in Liberty and Hill Counties in north-central Montana. Members now haul water from up to 40 miles away. The Department will finance construction of a central system by purchasing a \$623,000 bond which will carry an interest rate of 7% for 5 years and thereafter the interest rate at which the 1984 Series A Bonds are sold. The district will levy assessments on the property in the district to obtain funds with which to repay the bond.

Shelby is a town of 3,142 people located in central Montana. The town has a severely deteriorated sewer system. The Environmental Protection Agency has mandated reconstruction of the system. The Department will finance the required improvements through purchase of a \$592,000 sewer system revenue bond which will carry an interest rate of 7% for 5 years and thereafter the rate at which the 1984 Series A Bonds are sold.

The Town of Three Forks is a town of 1,247 people located in south-central Montana. The town has been directed by the State's Department of Health and Environmental Sciences to bring its water system into compliance with the State's Safe Drinking Water Act. The Department will finance the required improvements by purchasing a \$435,000 water system revenue bond from the town. The bond will bear an interest rate of 7% for 5 years, and thereafter the interest rate at which the 1984 Series A Bonds are sold.

STATE OF MONTANA

General Information

The territory encompassed by the State of Montana first became a part of the United States as a result of the Louisiana Purchase of 1803. Montana was organized as a separate territory in 1864 and was admitted as a state in 1889.

Montana is the fourth largest state in the United States, averaging 550 miles from east to west and 275 miles from north to south. It shares an international boundary with Canada and shares borders with North and South Dakota, Wyoming and Idaho. The Rocky Mountains extend north and south through the western part of the State. The eastern two-thirds of Montana consists of plains broken by occasional mountain ranges. Lumbering and recreation are major sources of income in western Montana, while agriculture is the chief source of income in eastern Montana. Mineral extraction, oil exploration and government operations are important economic factors throughout the State.

Montana is sparsely populated with a population density in 1983 of 5.6 persons per square mile compared to 66.1 persons per square mile for the United States. Montana ranked 44th in population in 1983.

Population

The following table presents population statistics for Montana, the Rocky Mountain Region and the United States.

Population Data (1)

Montana			Rocky Mountain Region(2)		United States	
	Population	% Increase Over Preceding Period	Population	% Increase Over Preceding Period	Population	% Increase Over Preceding Period
1950.....	591,000	5.7%	3,484,000	15.8%	151,326,000	14.5%
1960.....	675,000	14.2	4,317,000	23.9	179,323,000	18.5
1970.....	694,000	2.8	5,006,000	16.0	203,212,000	13.3
1980.....	787,000	13.4	6,551,000	30.9	226,505,000	11.5
1983(3).....	817,000	3.8	7,078,000	8.0	233,981,000	3.3

(1) Source: United States Department of Commerce, Bureau of the Census.

(2) Includes Colorado, Idaho, Montana, Utah and Wyoming.

(3) Preliminary.

Personal Income

From 1974 to 1983, personal income increased 122% in Montana and 138% nationally. Personal income in Montana during calendar year 1983 was \$8,165 million (preliminary estimate). The State's per capita income for 1983 was \$9,994 as compared with the Rocky Mountain regional figure of \$10,585 and with the United States figure of \$11,675.

The following table summarizes personal and per capita income statistics for the State, the Rocky Mountain Region and the United States.

TOTAL PERSONAL INCOME (\$MILLIONS)(1)

	Montana		Rocky Mountain Region		United States	
	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1974.....	\$3,670		\$28,817		\$1,147,257	
1975.....	4,019	9.5%	31,714	10.0%	1,248,631	8.8%
1976.....	4,216	4.9	35,062	10.6	1,374,189	10.0
1977.....	4,585	8.7	39,353	12.2	1,522,766	10.8
1978.....	5,425	18.3	45,606	15.9	1,709,616	12.3
1979.....	6,024	11.0	52,429	14.9	1,930,782	12.9
1980.....	6,822	13.2	59,991	14.4	2,160,629	11.9
1981.....	7,358	7.9	67,694	12.8	2,426,901	12.3
1982.....	7,677	4.3	73,785	9.0	2,571,517	6.0
1983(2).....	8,165	6.4	77,670	5.3	2,731,791	6.2
Average Annual Rate of Growth.		9.4%		11.7%		10.1%

(1) Source: United States Department of Commerce, Bureau of Economic Analysis

(2) Preliminary.

The following table shows the rates of unemployment in Montana and the United States during the period 1974-1984.

Unemployment Rates for Total Civilian Labor Force(1)

	Average Seasonally Adjusted Unemployment Rates	
	Montana	United States
1974	5.2	5.6
1975	6.4	8.5
1976	6.1	7.7
1977	6.4	7.0
1978	6.0	6.0
1979	5.1	5.8
1980	6.0	7.1
1981	6.9	7.6
1982	8.6	9.7
1983	8.8	9.6
1984 January.....	8.8	8.0
February.....	8.1	7.8
March	8.6	7.8
April	8.7	7.8
May	7.3(2)	7.5

(1) Source: United States Department of Labor and Montana Department of Labor and Industry, Research and Analysis Bureau.

(2) Preliminary.

Employment

Employment in the State grew rather modestly during the 1960's; about 19,000 jobs were created over the entire decade. In contrast, employment for the 1970-82 period increased by about 95,000 jobs. Almost all of the increase occurred in wholesale-retail trade and other industries of a service nature, and in this respect the growth was consistent with the national pattern. In 1983, 19.0% of all workers were federal, state or local government employees. Data concerning employment in Montana by major categories are shown in the following table.

Non-farm Employment in Montana(1)
(thousands of persons)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Manufacturing:				
Lumber and Wood Products	9.2	8.8	7.2	8.0
Primary Metals	2.6	2.0	1.4	1.2
Other Durable Goods	3.4	3.4	3.1	2.8
Food & Kindred Products	4.0	3.8	3.7	3.7
Printing & Publishing.....	2.4	2.3	2.3	2.3
Petroleum & Coal Products	1.0	1.1	1.1	1.0
Other Nondurable Goods	<u>1.7</u>	<u>1.8</u>	<u>1.9</u>	<u>1.9</u>
Total Manufacturing	24.1	23.2	20.7	20.9
Mining:				
Metal.....	1.9	2.3	1.7	1.3
Coal.....	2.2	2.3	2.2	2.1
Oil & Gas	<u>4.7</u>	<u>6.9</u>	<u>5.5</u>	<u>3.6</u>
Total Mining	8.8	11.5	9.4	7.0
Contract Construction.....	14.5	13.3	13.4	12.8
Transportation, Communication & Utilities	22.4	22.6	22.0	20.0
Trade	72.3	72.9	71.9	70.7
Finance, Insurance & Real Estate	12.9	12.9	12.8	13.0
Services.....	55.1	56.1	56.3	57.3
Federal Government	13.8	13.6	13.1	12.5
State & Local Government.....	<u>56.4</u>	<u>55.7</u>	<u>54.3</u>	<u>55.7</u>
Total Non-farm Wage & Salary Jobs.....	<u>280.3</u>	<u>281.8</u>	<u>273.9</u>	<u>269.9</u>

(1) Source: Montana Department of Labor and Industry, Research and Analysis Bureau.

GOVERNMENTAL ORGANIZATION AND SERVICES

The Constitution of Montana provides that the power of State government be divided among three distinct branches—the legislative, the executive and the judicial.

Legislative Branch

Legislative power in Montana is vested in the legislature, which is comprised of a senate and a house of representatives. The people reserve to themselves the powers of initiative and referendum. The people may enact laws by initiative on all matters except appropriations of money and local or special laws, and may approve or reject by referendum any act of the legislature except an appropriation of money. The senate consists of 50 members, each representing a single house district.

Members of the legislature are elected biennially in even numbered years at the general election in November and take office in January of the next year. Senate terms are for four years and house terms for two years. One-half the senate must stand for election every two years. One-half the senate has served four or more terms in the legislature. Almost three-quarters of the house has served at least two terms in office.

Regular sessions of the legislature are held each odd-numbered year for a period not to exceed 90 days. Any legislature may increase the limit on the length of any subsequent session. The legislature may be convened in special sessions by the governor or upon the written request of a majority of the members.

There are five legislative support offices which have over 149 full-time employees. The Legislative Auditor and the Legislative Fiscal Analyst are the principal offices.

Office of the Legislative Auditor. The Legislative Auditor is responsible for auditing the financial affairs and transactions of all State agencies and departments. In addition, the Legislative Auditor assists the legislature by gathering and analyzing information relating to the fiscal affairs of State government. The Legislative Auditor works under the supervision of the bipartisan legislative audit committee, the members of which are divided equally between the senate and the house.

Office of the Legislative Fiscal Analyst. The Legislative Fiscal Analyst analyzes the executive budget and assists the legislature in preparation of the State's budget and appropriation bills. The office also monitors agency operations throughout the biennium and reviews executive agency actions that have a fiscal impact. The Legislative Fiscal Analyst works under the supervision of the bipartisan legislative finance committee, the members of which are divided equally between the senate and the house.

Executive Branch

The Montana Constitution establishes six elective offices within the executive branch. These offices are Governor, Lieutenant Governor, Attorney General, State Auditor, Secretary of State, and Superintendent of Public Instruction. Terms of office are four years with the next election to be held on November 6, 1984, for terms of office commencing January 1, 1985.

The Governor is the chief executive officer of Montana government. The Governor has the constitutional responsibility to see that the laws are faithfully executed, to advise the legislature as to the status of government, to prepare an executive budget and to recommend to the legislature such measures as he deems advisable. The Governor has general and amendatory veto powers. A gubernatorial veto may be overridden by a two-thirds vote of each house of the legislature. In addition, broad appointive and investigatory powers are vested with the Governor by State statute.

The Lieutenant Governor performs duties provided by law and those delegated to him by the Governor. No power specifically vested in the Governor by the constitution may be delegated to the Lieutenant Governor. The Governor and Lieutenant Governor are elected as a unit.

The Attorney General is the chief legal officer of the State and provides legal services to all executive offices of State government and to county and municipal agencies and officials. The Attorney General also supervises and coordinates law enforcement throughout the State.

The State Auditor issues State warrants for the payment of funds out of the State treasury and maintains the State payroll system. No moneys may be paid out of the State treasury except upon State warrants issued by the State Auditor; provided, however, that interest and principal on the public debt may be paid by treasurer's check from the moneys pledged for such payment. The State Auditor is also ex-officio commissioner of insurance, ex-officio investment commissioner, and a member of the State Land Board.

The Secretary of State maintains the official records of all acts of the executive and legislative branches and performs other related duties prescribed by law.

The Superintendent of Public Instruction is responsible for general supervision of public schools and school districts in the State. The Superintendent provides consultative and technical assistance in assessment of the State's educational needs, assists in teacher preparation and certification, assists in school accreditation, and provides information, legal and financial services to schools and school districts.

Department of Administration. The Department of Administration is responsible for the financial and central service functions of State government. It is composed of eleven operating divisions and provides administrative services to four agencies that are attached for administrative purposes only. The Department's 1983-1985 biennial appropriation authorizes 433 staff positions and expenditures of \$52.4 million, excluding capital construction and retirement payments.

The Department of Administration is administered by a director, a deputy director and thirteen division administrators. The director is appointed by the Governor, subject to the senate's confirmation and serves at the Governor's pleasure.

The Director of the Department of Administration is the ex-officio State Treasurer. The State Treasurer's duties include serving as the custodian of all moneys and securities of the State, receiving and accounting for all moneys belonging to the State unless otherwise provided by law, and purchasing or redeeming warrants.

Judicial Branch

The Montana judicial branch comprises three court levels: the supreme court, district courts, and justice courts.

The supreme court, presided over by the chief justice and six associate justices, has appellate jurisdiction and may issue, hear and determine writs appropriate thereto. The supreme court has original jurisdiction in matters of habeas corpus and such other writs as provided by law. In addition, the supreme court has supervisory control over all other State courts and makes rules governing appellate procedures, the practices and procedures of all other courts, admission to the bar and the conduct of bar members.

District courts in Montana have original jurisdiction in all criminal cases amounting to felony and in all civil matters and cases at law and in equity. District courts also hear appeals from inferior courts. There are 19 judicial districts in Montana, presided over by 32 district court judges.

The third tier of Montana's justice system is the justice court, presided over by justices of the peace. These courts have no trial jurisdiction in criminal cases involving felonies except as examining courts to conduct preliminary hearings.

All officials of Montana's judicial branch are elected. Terms of office are as follows: supreme court justices, eight years; district court judges, six years; and justices of the peace, four years.

FINANCIAL MATTERS

Prior to July 1, 1983, the State financed its activities through 15 statutory funds, the primary two being the General Fund and the Earmarked Revenue Fund. Effective July 1, 1983, Montana adopted the fund structure recommended by the National Council on Governmental Accounting to comply with generally accepted accounting principles. Tax and non-tax revenues of the State are distributed into the various funds, and expenditures pursuant to legislative appropriations are made out of the appropriate fund. The State operates on a July 1 through June 30 fiscal year.

Attached hereto as Appendix C are financial statements of the State and a letter of review of the State's Legislative Auditor.

The State's latest comprehensive annual financial report will be sent to anyone desiring financial statements of all funds. Address requests to Department of Administration, Accounting Division, Mitchell Building, Room 255, Helena, Montana 59620, or call (406) 444-3092.

Financial Control Procedures

The financial control procedures utilized by the State may generally be summarized as follows: initially, the legislature appropriates funds to each agency; such funds are then allocated by each agency to its various programs; each program manager further allocates his share of the appropriation to its various objects of expenditures; allocated balances are encumbered when valid obligations are incurred; funds are actually expended when agencies process vendor claims or payrolls through the Statewide Budgeting and Accounting System and the State Auditor issues a warrant against funds in the treasury.

An appropriation for a project or service is initially contained in an appropriations bill enacted by the legislature. Before an appropriation for the administration, operation and maintenance of a budgeted agency becomes available for expenditure, the agency must submit to the Governor, through the office of budget and program planning, before the beginning of the fiscal year for which the appropriation was made, an operating plan that shows the allotment of the appropriated funds. The operating plans must be approved by the Governor or his designee. However, the Governor may not reduce appropriations for debt service, the legislative and judicial branches, public schools or salaries of elected officials. Each warrant issued by the State Auditor against appropriated funds in the State treasury must be against a specific appropriation in a specific fund. The Department of Administration is responsible for keeping an account of each appropriation. No warrant may be issued by the State Auditor in an amount in excess of the available fund cash or in excess of the unencumbered appropriated balance. The State Treasurer is required to honor all warrants drawn. Civil sanctions may be imposed, pursuant to statute, upon certain officials who willfully expend or authorize the expenditure of funds for any purpose in excess of the amount specifically appropriated for such purpose.

The Department of Administration is authorized by statute to establish procedures to ensure that expenditures are made and accounted for in accordance with the budget plan authorized by the legislature in the enactment of the appropriations. When authorized by the Governor, the budget director may require a quarterly allotment system of expenditures for any agency, institution or office.

Cash, appropriation, revenue estimate, and subsidiary detail ledger balances are available on a daily basis to agency managers and the Department of Administration. Widespread use of computer terminals allows all managers to continuously monitor the balances for their programs. Monthly detailed reports are provided to each program manager. Summary reports are provided to oversight agencies monthly.

Any valid obligation not paid within a fiscal year is accrued at the end of the fiscal year, and payment is made when the goods or services are received. Appropriations revert after the expiration of the time for which so appropriated to the funds from which originally appropriated. Any unexpended balance in any specific appropriation may be used in the following fiscal year for valid expenditures pertaining to the year for which the appropriation was made. Appropriation reversions in the General Fund average 2% each fiscal year.

Accounting System and Legislative Audit

The State has established a centrally maintained computerized accounting and financial reporting system. The Department of Administration maintains and operates the system on behalf of user agencies, including the higher education system. The system automatically: (1) controls cash and appropriation balances, (2) compares transactions within established rules, (3) records valid transactions, (4) produces standard financial reports, and (5) produces a series of special reports.

The State uses the modified accrual basis of accounting in the governmental funds. Revenues are recorded when measurable and available to finance current operations and expenditures are recorded when a valid obligation is incurred. For an expenditure to qualify as a valid obligation, the following rules are used: (i) payroll costs are accrued in the fiscal year in which earned; (ii) services generally must have been rendered during the fiscal year in which the anticipated expenditure is to be accrued; (iii) equipment costs are accrued in the fiscal year in which ordered and budgeted; and (iv) materials and supplies are expensed in the year when received insofar as it is practicable to do so. Full accrual basis of accounting is used in the proprietary funds, the applicable trust funds and the higher education funds.

The financial information is summarized by funds and accounting entities within each fund. Prior to June 30, 1983, there were approximately 1,500 accounting entities within fifteen statutory funds. An accounting entity is defined as an independent fiscal entity with a self-balancing group of accounts to properly reflect compliance with legal and contractual provisions.

The Legislative Auditor performs audits of all agencies on a two-year rotating basis but does not audit the General Fund as a separate accounting entity. Selected central operations, including the State treasury function, the State investment function, the central data processing functions for the statewide budgeting and accounting system, the central payroll system, and the central warrant writing system are audited annually.

Commencing with the 1984 fiscal year, the Legislative Auditor will perform an audit of the State's financial report taken as a whole in conformity with generally accepted auditing standards. Steps to prepare for and implement this audit are currently underway.

Cash Management and Investment Procedures

The Board of Investments within the Department of Administration has the investment responsibility for all funds including the General Fund and all retirement and trust funds, excluding that portion of the Coal Severance Tax Trust Fund invested by the State Department of Commerce. The board is statutorily composed of five members of the general public who are experienced in the field of financial investments.

Except for specifically requiring that no more than 50% of the State's retirement funds moneys may be invested in common stock, the statutes of the State permit investments under the "prudent man" rule.

In the early 1970's, Montana passed legislation designed to improve the procedure for cash management and the investment of all State moneys. In 1973 the short-term investment pool ("STIP") was created. This combined investment pool allows all surplus cash of all State funds and cities and counties of the State to be invested as one fund by the State. Individual participants in STIP can add or withdraw moneys on a daily basis with interest earned from the date of deposit to date of withdrawal.

All banks holding major account balances report balances daily. This enables the Department of Administration to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested. The total book value of investments under management as of June 30, 1981, 1982 and 1983 were \$1,156,000,247, \$1,368,737,318, and \$1,547,198,879 respectively.

The State Budget Process

Montana is a biennial budget state. The State Constitution requires that appropriations in the budget adopted by the legislature shall not exceed available revenues. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues.

The budget cycle begins with the preparation of agency plans in January of each even-numbered year. Agency budget requests are submitted to the Governor and the Legislative Fiscal Analyst by September 1 of even-numbered years. The Governor, together with the budget director, reviews these requests, establishes priorities and balances the budget within currently authorized and anticipated revenues. On December 1, a copy of the Governor's budget is submitted to the Legislative Fiscal Analyst who then prepares a recommendation and a comparison of those recommendations with the Governor's budget and submits it to the legislature. The Governor's budget is released to the public and the legislature by the first week of the legislative session. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported out to the house and subsequently to the senate. Prior to June 30, the legislature generally enacts one bill making the general appropriations for the next two fiscal years. Other appropriations for special projects are also enacted by the legislature, but only within the limits of revenue available. Agencies must prepare and submit to the budget director by July 1 of each year operational plans showing the allocation of operating budgets by line item. The budget director may authorize transfers of funds between line items unless limited by the appropriation act or other statute.

Under the State Constitution, the Governor has the power to veto any line of any itemized appropriation bill while at the same time approving the remainder of the bill. The legislature can vote on the Governor's recommendation or reconsider and repass such disapproved items of appropriation by a two-thirds vote.

Approved positions are established for each agency, and no employee may be hired unless an authorized vacant position is available. Appropriations may not be increased for General Fund agencies. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization to the Governor through the budget director. The Governor may grant such authorization if he finds that the expenditure is the result of an unforeseen emergency, but must report this action to the legislature and request that any necessary supplemental appropriation bills be passed.

An expenditure limitation law was passed by the 1981 legislature. It states that expenditures in the General Fund and Earmarked Revenue Funds for a biennium may not exceed the percentage growth in the average Montana total personal income. The limitation can be exceeded only by a declaration of emergency by the Governor with a two-thirds concurrence by both houses of the legislature.

Financial Statements

The financial reports for fiscal year 1983 presented in this appendix are significantly different from financial statements prepared in prior years. They reflect changes made by the State in order to implement more stringent standards of governmental reporting established by the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). Due to changes necessary to implement generally accepted accounting principles (GAAP), the fiscal year 1983 financial statements are not comparable with those from any previous year. Where the following financial information is not in compliance with GAAP, the differences have been noted. In the ensuing fiscal years, the State will continue to address the changes needed to report in complete conformity with GAAP.

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS

JAMES H. GILLET
FINANCIAL COMPLIANCE AUDIT

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

**State of Montana
Board of Examiners**

We have reviewed the accompanying Combined Balance Sheet - All Fund Types and Accounts Groups of the State of Montana and the Combining Balance Sheet - All Higher Education Funds as of June 30, 1983 and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Equity/Fund Balances - All Proprietary Fund Types and Similar Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund and Special Revenue Fund Type; and Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds for the fiscal year then ended, in accordance with standards established by the AICPA. All information included in these financial statements is the representation of officials of the State of Montana.

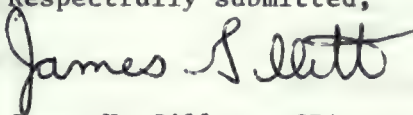
A review consists principally of inquiries of department personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, with the exception of the matters described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Certain items in the financial statements are not presented in accordance with generally accepted accounting principles. These items related to omission of required statements, quasi-external transactions, and intra-fund transactions and are outlined in the

Basis of Presentation section under Note 1 to the financial statements. The dollar effect of these departures from generally accepted accounting principles on financial position, results of operations, and changes in financial position have not been determined.


Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

July 23, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

mslh

STATE OF MONTANA
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1983

(Expressed in Thousands)

ASSETS	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Cash and Cash Equivalents	\$ 66,549	\$ 114,940	\$ 12,320	\$ 12,717
Cash with Fiscal Agent		1,700		
Receivables (Net)	19,865	10,493	1,287	1,191
Interentity Loans Receivable	1,047	21,783		
Due from Other Funds	11,570	49,154	2	(48)
Due from Other Governments	16	39,541		
Inventories	2,380	14,848		
Advances to Investment Pool		23,652	459	12,233
Other Advances				
Long-Term Notes and Loans Rec.		8,779		
Investments		21,385	10,915	6,996
Restricted Assets				
Land				
Buildings and Improvements				
Equipment				
Other Fixed Assets				
Construction in Progress				
Accumulated Depreciation				
Amt. Avail. Debt Service Fund				
Amt. to be Provided to Retire				
Long-Term Debt				
Other Assets	297	2,317		14
Total Assets	\$ 101,724	\$ 308,592	\$ 24,983	\$ 33,103
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable and Accruals	\$ 12,927	\$ 41,005	\$ 178	\$ 798
Interentity Loans Payable		21,116		796
Due to Other Funds	7,049	32,208	1	(17)
Due to Other Governments	1,565	2,990		
Current Notes and Bonds Payable	50		290	
Other Payables		1,347		54
Deferred Revenue	16,922	18,205	990	718
Long-Term Notes and Bonds Payable				
Property Held in Trust	18	549		
Total Liabilities	38,531	117,420	1,459	2,349
Fund Equity:				
Contributed Capital				
Invest. in Gen. Fixed Assets				
Retained Earnings:				
Reserved for Bond Retirement				
Reserved for Encumbrances				
Unreserved				
Fund Balances:				
Reserved For:				
Encumbrances	2,261	9,054		34
Inventories	2,380	14,837		
Retirement System				
Long-Term Assets		4,508		
Debt Service			23,524	
Federal Loans and Special Trusts		10,289		
Continuing Appropriations	1,657	16,327		92,941
Unreserved	56,895	136,157		(62,221)
Total Fund Equity	63,193	191,172	23,524	30,754
Total Liabilities and Fund Equity	\$ 101,724	\$ 308,592	\$ 24,983	\$ 33,103

The notes to the financial statements are an integral part of this statement

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		HIGHER EDUCATION FUNDS	TOTAL (Memorandum Only)
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG- TERM DEBT		
\$ 2,630	\$ 5,575	\$ 397,170	\$	\$	\$ 33,035	\$ 644,936
						1,700
4,771	606	50,592			15,817	104,622
	40	237			5,245	28,352
547	2,954	37,513			8,183	109,875
		52			113	39,722
8,901	760	8			4,479	31,376
6,993	8,105	134,323			11,763	197,528
		153,899				153,899
241,661	160	1,681				252,281
75,852		1,049,162			1,055	1,165,365
37,043						37,043
	925	49,434	34,036		7,488	91,883
1,974	1,003	158	122,932		184,412	310,479
979	43,822	79	39,388		44,455	128,723
	1,781		841		23,472	26,094
	295		29,295		29,358	58,948
(786)	(19,937)	(79)				(20,802)
				23,524		23,524
				110,905		110,905
64	2	18,281			1,015	21,990
\$ 380,629	\$ 46,091	\$ 1,892,510	\$ 226,492	\$ 134,429	\$ 369,890	\$ 3,518,443
\$ 7,033	\$ 3,656	\$ 6,872			\$ 19,687	\$ 92,156
	1,194				5,233	28,339
3,136	1,389	57,508			8,601	109,875
		16,162			26	20,743
						340
		493,684			11,619	506,704
926	11	5,812			599	44,183
331,806				134,429	39,504	505,739
	6	44,361			344	45,278
342,901	6,256	624,399	0	134,429	85,613	1,353,357
	2,420					2,420
			226,492		249,024	475,516
19,434						19,434
69	851					920
18,225	36,564					54,789
		37				11,386
		728,510				17,217
						728,510
						4,508
		462,177			14,999	23,524
					22,485	487,465
		77,387			(2,231)	133,410
37,728	39,835	1,268,111	226,492	0	284,277	205,987
						2,165,086
\$ 380,629	\$ 46,091	\$ 1,892,510	\$ 226,492	\$ 134,429	\$ 369,890	\$ 3,518,443

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 1983

(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTAL (Memo Only)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	
REVENUES:						
Licenses and Permits	\$ 19,426	\$ 33,974	\$	\$	\$ 1	\$ 53,401
Taxes:						
Gas, Oil and Coal Prod.	63,087	14,150	1,000			78,237
Individual Income	97,730	38,176	16,797			152,703
Corporate Income	20,974	11,628	3,605			36,207
Other	23,341	100,245	8,305	2,857		134,748
Service Fees and Fines	2,633	7,663			792	11,088
Investment Earnings	50,167	29,348	1,184	5,352	7,076	93,127
Reimbursements	12,673	6,410				19,083
Sale of Doc. Mdse. and Property	4,591	1,081		281		5,953
Rentals, Leases and Royalties	116	459		564		1,139
Fiduciary and Trust		42			104,341	104,383
Grants and Gifts	1	7,234	3		4	7,242
Federal Assistance		281,502			716	282,218
Other	387	1,320				1,707
Total Revenues	295,126	533,232	30,894	9,054	112,930	981,236
EXPENDITURES:						
General Government	53,317	18,993		1,438		73,748
Public Safety & Corrections	31,059	15,517				46,576
Transportation	1,413	160,478			833	162,724
Health and Social Services	103,603	144,752				248,355
Education and Cultural	44,772	159,147			6	203,925
Resource Dev. and Recreation	9,791	33,797				43,588
Economic Development and Assist.	2,816	31,551			123,397	157,764
Debt Service—Principal			3,734			3,734
Debt Service—Interest	1,338		5,906			7,244
Capital Outlay	233	7,142		18,326		25,701
Total Expenditures	248,342	571,377	9,640	19,764	124,236	973,359
Excess of Revenues Over (under) Expenditures	46,784	(38,145)	21,254	(10,710)	(11,306)	7,877
PRIOR YEAR ADJUSTMENTS	6,794	(19,519)	59	107	1,306	(11,253)
OTHER FINANCING SOURCES (USES):						
Bond Proceeds		50,120	13,180			63,300
Increase (Decrease) in Inventories	1,122	1,824				2,946
Operating Transfers In (Out)	(61,034)	27,091	(21,869)	1,696	(3,111)	(57,227)
Total Other Financing Sources	(59,912)	79,035	(8,689)	1,696	(3,111)	9,019
PRIOR YEAR TRANSFER ADJUSTMENT	32,143	(31,756)	(5)	0	5,455	5,837
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	25,809	(10,385)	12,619	(8,907)	(7,656)	11,480
FUND BALANCES—JULY 1- As Previously Stated	34,336	204,903	10,766	39,022	89,590	378,617
PRIOR PERIOD ADJUSTMENTS (See Note 3)	3,048	(3,346)	139	639	(4,547)	(4,067)
FUND BALANCES—JULY 1 - As Restated	37,384	201,557	10,905	39,661	85,043	374,550
FUND BALANCES—JUNE 30	\$ 63,193	\$ 191,172	\$ 23,524	\$ 30,754	\$ 77,387	\$ 386,030

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, and Changes in Fund Equity/Fund Balances

All Proprietary Fund Types and Similar Trust Funds

For the Fiscal Year Ended June 30, 1983

(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		TOTAL (Memo Only)
	ENTERPRISE	INTERNAL SERVICE	NONEXP. TRUST	PENSION TRUST	
OPERATING REVENUES:					
Taxes	\$	\$	\$ 59,837	\$	\$ 59,837
Charges for Services	68,888	34,581		675	104,144
Investment Earnings	28,698		8,008	66,486	103,192
Contributions				99,201	99,201
Gifts			373		373
Other	775		10,124	60	10,959
Total Operating Revenue	98,361	34,581	78,342	166,422	377,706
OPERATING EXPENSES:					
Personal Services	5,216	11,223		761	17,200
Contractual Services	3,011	2,343		160	5,514
Supplies and Materials	31,230	6,168		10	37,408
Debt Service	23,660				23,660
Benefits	12,444	2,505		58,355	73,304
Communications		3,808			3,808
Depreciation	111	3,199		10	3,320
Repair and Maintenance		1,857			1,857
Utilities and Rent	970	2,182		46	3,198
Refunds				9,802	9,802
Other	305	2,648	2	360	3,315
Total Operating Expenses	76,947	35,933	2	69,504	182,386
Operating Income	21,414	(1,352)	78,340	96,918	195,320
PRIOR YEAR ADJUSTMENTS	31	(916)	2,925	(86)	1,954
NONOPERATING REVENUE (EXPENSES):					
Gain on Sale of Fixed Assets	1	19			20
Reduction in Value of Livestock		(435)			(435)
Miscellaneous	36	88			124
Investment Earnings		959			959
Sale of Property			207		207
Total Nonoperating Revenue (Expenses)	37	631	207	0	875
Income before Operating Transfers	21,482	(1,637)	81,472	96,832	198,149
OPERATING TRANSFERS IN (OUT)	(15,265)	0	(5,936)	25	(21,176)
PRIOR YEAR TRANSFER ADJUSTMENTS	(70)	(1,079)	(3,331)	(196)	(4,676)
Net Income (Loss)	6,147	(2,716)	72,205	96,661	172,297
RETAINED EARNINGS/FUND BALANCE— JULY 1—As Previously Stated	31,331	39,338	389,415	619,327	1,079,411
PRIOR PERIOD ADJUSTMENTS (See Note 3)	250	1,011	560	12,559	14,380
RETAINED EARNINGS/FUND BALANCE— JULY 1—As Restated	31,581	40,349	389,975	631,886	1,093,791
RESIDUAL EQUITY TRANSFERS	0	2,202	(3)	0	2,199
RETAINED EARNINGS/FUND BALANCE— JUNE 30	\$ 37,728	\$ 39,835	\$ 462,177	\$ 728,547	\$ 1,268,287

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budget Basis)
General Fund and Special Revenue Fund Type
For the Fiscal Year Ended June 30, 1983
(Expressed in Thousands)

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUES:			
Licenses and Permits	\$ 19,510	\$ 19,426	\$ (84)
Taxes:			
Cigarette and Tobacco			
Gas, Oil and Coal Production	61,904	61,522	(382)
Individual Income	97,742	97,152	(590)
Corporate Income	22,803	20,734	(2,069)
Alcoholic Beverages	22,955	23,341	386
Fuel			
Miscellaneous			
Service Fees and Fines	2,163	2,237	74
Investment Earnings	55,796	48,385	(7,411)
Reimbursements	9,973	12,264	2,291
Sale of Documents, Merchandise and Property	5,545	4,588	(957)
Rentals, Leases and Royalties	164	110	(54)
Fiduciary and Trust			
Grants and Gifts			
Federal Assistance			
Miscellaneous	11	17	6
Total Revenues	298,566	289,776	(8,790)
EXPENDITURES:			
General Government	55,048	51,583	3,465
Public Safety and Corrections	33,109	31,487	1,622
Transportation	1,436	1,408	28
Health and Social Services	105,933	104,117	1,816
Education and Cultural	45,486	44,815	671
Resource Development and Recreation	10,339	9,970	369
Economic Development and Assistance	2,986	2,827	159
Debt Service-Interest	1,338	1,338	0
Capital Outlay	235	235	0
Total Expenditures	255,910	247,780	8,130
Excess of Revenues Over (under) Expenditures	42,656	41,996	(660)
PRIOR YEAR ADJUSTMENTS	(1,558)	(1,558)	0
OTHER FINANCING SOURCES (USES):			
Bond Proceeds			
Operating Transfers In (Out)	(61,265)	(61,899)	(634)
Total Other Financing Sources	(61,265)	(61,899)	(634)
PRIOR YEAR TRANSFER ADJUSTMENT	32,125	32,125	0
Excess of Revenues and Other Sources Over (under) Expenditures and Other Uses	11,958	10,664	(1,294)
FUND BALANCE—JULY 1	34,336	34,336	0
FUND BALANCE—JUNE 30	\$ 46,294	\$ 45,000	\$ (1,294)

The notes to the financial statements are an integral part of this statement.

SPECIAL REVENUE FUND TYPE			TOTAL (Memorandum Only)		
BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 24,161	\$ 33,956	\$ 9,795	\$ 43,671	\$ 53,382	\$ 9,711
14,480	14,150	(330)	76,384	75,672	(712)
38,181	37,950	(231)	135,923	135,102	(821)
12,528	11,534	(994)	35,331	32,268	(3,063)
			22,955	23,341	386
101,963	97,803	(4,160)	101,963	97,803	(4,160)
2,329	2,442	113	2,329	2,442	113
8,177	7,475	(702)	10,340	9,712	(628)
1,422	1,641	219	57,218	50,026	(7,192)
8,290	5,964	(2,326)	18,263	18,228	(35)
1,274	973	(301)	6,819	5,561	(1,258)
532	452	(80)	696	562	(134)
37	42	5	37	42	5
1,650	1,243	(407)	1,650	1,243	(407)
170,266	164,759	(5,507)	170,266	164,759	(5,507)
111,802	120,488	8,686	111,813	120,505	8,692
<u>497,092</u>	<u>500,872</u>	<u>3,780</u>	<u>795,658</u>	<u>790,648</u>	<u>(5,010)</u>
28,167	18,967	9,200	83,215	70,550	12,665
18,015	15,519	2,496	51,124	47,006	4,118
191,323	165,265	26,058	192,759	166,673	26,086
154,604	141,815	12,789	260,537	245,932	14,605
158,485	155,975	2,510	203,971	200,790	3,181
43,703	33,191	10,512	54,042	43,161	10,881
44,615	29,208	15,407	47,601	32,035	15,566
			1,338	1,338	0
14,825	7,119	7,706	15,060	7,354	7,706
<u>653,737</u>	<u>567,059</u>	<u>86,678</u>	<u>909,647</u>	<u>814,839</u>	<u>94,808</u>
(156,645)	(66,187)	90,458	(113,989)	(24,191)	89,798
(19)	(19)	0	(1,577)	(1,577)	0
50,120	50,120	0	50,120	50,120	0
15,637	32,117	16,480	(45,628)	(29,782)	15,846
<u>65,757</u>	<u>82,237</u>	<u>16,480</u>	<u>4,492</u>	<u>20,338</u>	<u>15,846</u>
3	3	0	32,128	32,128	0
(90,904)	16,034	106,938	(78,946)	26,698	105,644
199,122	199,122	0	233,458	233,458	0
<u>\$ 108,218</u>	<u>\$ 215,156</u>	<u>\$ 106,938</u>	<u>\$ 154,512</u>	<u>\$ 260,156</u>	<u>\$ 105,644</u>

STATE OF MONTANA
Combined Statement of Changes in Financial Position
All Proprietary Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 1983
(Expressed in Thousands)

	ENTERPRISE	INTERNAL SERVICE	NON EXP. TRUST	PENSION TRUST	TOTAL (Memo Only)
SOURCES OF WORKING CAPITAL:					
Operations:					
Net Income (Loss)	\$ 6,147	\$ (2,716)	\$ 72,205	\$ 96,661	\$172,297
Items not Requiring Working Capital:					
Depreciation	111	3,199		10	3,320
Amortization of Net Loss on Securities Exchanged			1,365	2,286	3,651
Prior Period Adjustment (See Note 3)	<u>250</u>	<u>1,011</u>	<u>560</u>	<u>12,559</u>	<u>14,380</u>
Working Capital Provided by Operations	6,508	1,494	74,130	111,516	193,648
Sale of Long-Term Investments			39,012	110,052	149,064
Reduction in Value of Livestock		435			435
Disposal of Fixed Assets	84	686			770
Decrease in Noncurrent Receivables	5,017		115		5,132
Increase in Noncurrent Payables	85,000	344			85,344
Transfers from Other Funds		<u>2,399</u>			<u>2,399</u>
Total Sources of Working Capital	<u>96,609</u>	<u>5,358</u>	<u>113,257</u>	<u>221,568</u>	<u>436,792</u>
USES OF WORKING CAPITAL:					
Purchase of Long-Term Investments	13,927		88,902	214,590	317,419
Acquisition of Fixed Assets	156	6,291		204	6,651
Decrease in Noncurrent Payables	27,690	776	711		29,177
Purchase of Mortgage Loans	49,884				49,884
Transfers to Other Funds		197	3		200
Payments of Issuance Costs	<u>2,295</u>				<u>2,295</u>
Total Uses of Working Capital	<u>93,952</u>	<u>7,264</u>	<u>89,616</u>	<u>214,794</u>	<u>405,626</u>
Net Increase (Decrease) in Working Capital	\$ <u>2,657</u>	\$ <u>(1,906)</u>	\$ <u>23,641</u>	\$ <u>6,774</u>	\$ <u>31,166</u>
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:					
Cash and Cash Equivalents	1,617	(1,798)	4,767	(7,924)	(3,338)
Accounts Receivable	633	(1,681)	1,412	15,045	15,409
Due from Other Funds	(3,900)	1,826	3,772	5,563	7,261
Inventories	(2,170)	(17)		8	(2,179)
Advances to Investment Pool	2,027	(966)	10,104	(1,928)	9,237
Investments		297			297
Interentity Loans Receivable	(6)	(64)			(70)
Other Assets		(19)	12,689		12,670
Accounts Payable	(629)	252		229	(148)
Due to Other Funds	5,510	500	(9,041)	(4,043)	(7,074)
Due to Other Governments			(83)		(83)
Other Payables				5	5
Deferred Revenue	(450)	45	(7)	(181)	(593)
Property Held in Trust		(6)			(6)
Interentity Loans Payable	<u>25</u>	<u>(275)</u>	<u>28</u>		<u>(222)</u>
Net Increase (Decrease) in Working Capital	\$ <u>2,657</u>	\$ <u>(1,906)</u>	\$ <u>23,641</u>	\$ <u>6,774</u>	\$ <u>31,166</u>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Balance Sheet
All Higher Education Funds
June 30, 1983
(Expressed in Thousands)

	CURRENT	FIDUCIARY	PLANT	TOTAL (Memo Only)
ASSETS				
Cash and Cash Equivalents	\$ 15,433	\$ 5,781	\$ 11,821	\$ 33,035
Receivables (Net)	1,748	14,016	53	15,817
Interentity Loans Receivable	4,913	50	282	5,245
Due from Other Funds	6,156	1,433	594	8,183
Due from Other Governments	113			113
Inventories	4,478	1		4,479
Advances to Investment Pool	7,194	1,821	2,748	11,763
Investments	477	417	161	1,055
Land			7,488	7,488
Buildings and Improvements			184,412	184,412
Equipment			44,455	44,455
Other Fixed Assets			23,472	23,472
Construction in Progress			29,358	29,358
Other	489	5	521	1,015
Total Assets	\$ 41,001	\$ 23,524	\$ 305,365	\$ 369,890
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable & Accruals	\$ 15,686	\$ 2,863	\$ 1,138	\$ 19,687
Interentity Loans Payable	4,524	129	580	5,233
Due to Other Funds	7,372	679	550	8,601
Due to Other Governments	25	1		26
Other Payables	11,424	170	25	11,619
Deferred Revenue	483	107	9	599
Notes and Bonds Payable			39,504	39,504
Property Held in Trust	335	9		344
Total Liabilities	39,849	3,958	41,806	85,613
Fund Equity:				
Invest. in Gen. Fixed Assets			249,024	249,024
Fund Balance:				
Unreserved	(21,255)	4,601	14,423	(2,231)
Reserved For:				
Continuing Appropriations	22,373		112	22,485
Fed. Loans & Spec. Trusts	34	14,965		14,999
Total Fund Equity	1,152	19,566	263,559	284,277
Total Liabilities and Fund Equity	\$ 41,001	\$ 23,524	\$ 305,365	\$ 369,890

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity**—For financial reporting purposes, in conformance with the National Council on Governmental Accounting (NCGA) pronouncement, "Defining the Governmental Reporting Entity-Statement 3, the State of Montana includes all funds, account groups, agencies, boards and commissions that are controlled by or dependent on the State's legislative, executive or judicial branches. Control by or dependence on the State was determined on the basis of the following criteria, as defined in NCGA Statement 3: selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public service.

Community colleges are not considered part of the State reporting entity, thus they are excluded from the accompanying financial statements for the following reasons. The State's General Fund provided 53 percent of the colleges' current unrestricted budgets for fiscal year 1983; the remainder of the colleges' operating and capital expenditures, including debt service, are financed entirely from nonstate sources such as tuition, federal grants and local tax levies. The State has no obligation to fund the colleges' budgets. At year-end, any surplus remains with the colleges. A Board of Trustees is elected by the voting public in each community college district to administer and control the colleges. The Board of Trustees adopts rules, grants certificates, controls all college assets, receipts and disbursements, and hires key personnel. The college district may issue bonds for which the full faith, credit and taxable resources of the district are pledged. Outstanding debt of the community college districts is not an obligation of the State.

- B. Basis of Presentation**—Montana reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed by the National Council on Governmental Accounting, the American Institute of Certified Public Accountants, and the National Association of College and University Business Officers, except as follows:

- (1) Required Statements of Current Funds Revenues, Expenditures, and Other Changes—All University Current Funds and Statements of Changes in Fund Balance—All University Funds excluding Agency Funds, are not presented;
- (2) Amounts reported as transfers include certain quasi-external transactions that should be reported as revenues and expenditures/expenses; and
- (3) Intra-fund transactions are not eliminated.

Montana's various funds are grouped in the financial statements in this report as follows:

GOVERNMENTAL FUNDS

General Fund—To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds—To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds—To account for resources accumulated for payment of general long-term debt principal and interest.

Capital Project Funds—To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds—To account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily

through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds—To account for the financing of goods and services provided by one department or agency to other departments or agencies or to other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds—To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, and (d) agency funds.

ACCOUNT GROUPS

General Fixed Assets Account Group—To account for all fixed assets of the State, except those accounted for in the proprietary, nonexpendable and pension trust, and plant funds.

General Long-Term Debt Account Group—To account for all long-term obligations of the State, except those accounted for in proprietary, nonexpendable and pension trust, and plant funds.

HIGHER EDUCATION (UNIVERSITY AND VOCATIONAL-TECHNICAL CENTER) FUNDS

Current Funds—To account for unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and restricted funds which may be utilized only in accordance with external restrictions.

Fiduciary Funds—To account for resources available for loan to students, faculty and staff; endowment funds; and resources held by the institution as custodian or fiscal agent.

Plant Funds—To account for institutional property acquisition, renewal, replacement, debt service and investment.

Amounts in the "Total—Memo Only columns in the preceeding financial statements represent a summation of the combined financial statement line-items of the fund types and account groups. These amounts are presented for analytical purposes only. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amount to be Provided to Retire Long-Term Debt which is not an asset in the usual sense. Consequently, amounts shown in the "Total - Memo Only columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the State.

C. Basis of Accounting—The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance measurement focus. This means that all assets and all liabilities associated with this activity are included on their balance sheets. Their reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed in the governmental funds and expendable trust funds. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues. Taxes on coal sales, gas and oil production and individual income are recognized as revenues, if available, when tax returns are filed since they normally are only measurable at that time. Property tax revenues are recognized when received.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred with the following exceptions, which are in accordance with generally accepted accounting principles:

- 1) principal and interest on long-term debt is reported when due;
- 2) obligations for employees' vested annual leave and sick leave are reported as expenditures when paid;
- 3) prepayments are accounted for as expenditures in the period of acquisition; and
- 4) inventory items are considered expenditures when purchased.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and report on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable). Student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted.

Proprietary funds' unbilled receivables are recognized as revenue.

- D. The State Budget Process**—Montana is a biennial budget state. The constitution requires that appropriations in the budget adopted by the Legislature shall not exceed available revenues. Expenditures may not legally exceed budgeted appropriations at the appropriation level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenue. Budgets are required by state law for the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor together with the budget director reviews these requests, establishes priorities and balances the budget within currently authorized and anticipated revenues. A copy of the Governor's budget is submitted to the legislative fiscal analyst who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the Legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported out to the House and subsequently to the Senate. The Legislature generally enacts one bill making all appropriations for the next two fiscal years. Other appropriations are enacted by the Legislature, but only within the revenue available. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by line item. The budget director may authorize transfers of funds between line items unless limited by the appropriation act.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended, if applicable. Supplemental appropriations of \$12,683,467 for the General Fund for fiscal year 1983 were approved during the 1983 Legislative session.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. Appropriations that are not continued are reverted after fiscal year-end. The reverted appropriations will remain available for one year to record proper prior year adjustments. After that time the appropriation authority lapses. Fund balances/retained earnings are not reserved for reverted appropriations.

Because capital projects fund authorizations are not made on an annual basis, capital projects fund activities are not presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budget Basis).

- E. Encumbrances**—Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation, is employed for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures/expenses.
- F. Budget Basis**—The budget basis differs from GAAP for encumbrances outstanding at year-end, fixed assets and inventories purchased in proprietary funds, inventories purchased in higher education funds, and certain loans from governmental funds. Actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. A reconciliation of the differences between the budgetary basis and the GAAP basis is presented in Note 4.
- G. Cash and Cash Equivalents**—This classification includes bank accounts, imprest cash funds, cash in U.S. Treasury, cash with trustee banks, cash on hand at fiscal year-end and short-term investments. These investments are stated at cost, which at June 30, 1983 was approximately 91% of the market value. The majority of short-term investment earnings are credited to the State's General Fund.
- H. Receivables**—This classification, net of uncollectibles, consists primarily of receivables for goods sold and services provided, short-term loans and notes, interest, dividends and income, withholding and inheritance taxes.

An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1983 was \$1.6 million.

- I. Interfund Transactions**—During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets and service debt. The governmental funds financial statements generally reflect such transactions as transfers while the proprietary funds financial statements report these as operating revenue/expense. To the extent that certain transactions between funds have not been paid or received as of June 30, 1983, interfund receivables and payables have been recorded. See Note 5 for a detailed listing of interfund loans.
- J. Inventories**—Inventories of materials and supplies are stated at lower of cost or market. The State allows agencies to use any generally accepted inventory pricing method, but specifies that the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method where inventory purchases are recorded as expenditures. At fiscal year-end significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education funds report using the "consumption method, where inventories are expensed as used.

- K. Advances to Investment Pool**—The Montana Board of Investments operates two investment pools. One allows agencies with small amounts of excess cash to pool their resources for short-term investment purposes, resulting in greater investment earnings. At June 30, 1983 this pool had a market value of \$108.1 million and a book value of \$110.3 million. The other is a pool which purchases common stock of publicly held companies. This pool's market and book values at June 30, 1983 were \$129.5 million and \$87.2 million respectively. Montana statutes limit the types of stock that may be purchased.
- L. Investments**—This classification includes long-term investments stated at cost or amortized cost aggregating \$1,165,365,000. At June 30, 1983 the market value of these investments was \$1,142,448,411. Debt securities included in this classification are expected to be held to maturity and redeemed at face value. Premiums and discounts are amortized over the maturity of the investment using the straight-line method.
- M. Restricted Assets**—Funds set aside for payment of the Housing Authority's revenue bonds and 1% of the amount allocated to the housing programs are classified as restricted assets since their use is restricted by applicable bond resolutions.

- N. Fixed Assets and Depreciation**—The State's general fixed assets are stated at cost and are not depreciated in the General Fixed Assets Account Group. When purchased, such assets are recorded as expenditures in the governmental type funds and Expendable Trust Funds. Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value at the time of receipt. Interest during construction and infrastructure general fixed assets, such as highways, bridges, curbs and gutters, are not capitalized.

Proprietary, Pension Trust, and Nonexpendable Trust Fund fixed assets are accounted for within their respective funds. They are depreciated on a straight-line basis with estimated useful lives of 30-50 years for buildings, 20 years for improvements and 4-12 years for equipment.

University and Vocational-Technical Center fixed assets are accounted for in the Investment in Plant Fund and are not depreciated.

- O. Deferred Revenue**—Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria (measurable and available) have not been met. State policy for most revenues defines "available as being collected within 60 days after fiscal year end. Monies collected in advance of the fiscal year to which they apply are also deferred.

Current year property taxes levied but not collected by fiscal year end are deferred and recorded as revenue when received. Historical analysis indicates a consistent matching regardless of whether property tax revenues are accrued using revenue recognition criteria or are recognized when received.

- P. Fund Balance Reserves**—Portions of fund equity are reported as "reserved to indicate amounts not appropriable for expenditure, such as equity represented by inventories, and amounts legally segregated for a specific future use, such as those pledged for debt service and retirement.

- Q. Employee Annual Vacation And Sick Leave**—It is the State's policy to record the cost of vacation and sick leave when paid. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of twelve days per year with no limit on accumulation. Upon retirement or termination an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. As of June 30, 1983 the State's liability for unused vacation and sick leave for university and vocational-technical center employees was \$11,110,323. The remaining agencies' leave liability at June 30, 1983 was \$23,611,773.

2. COMPARABILITY WITH PRIOR YEARS

- A. Financial Statement Format**—To adopt the requirements of NCGA Statement 1, the State has presented general purpose financial statements by fund type and account group for the first time this year. These general purpose financial statements present a columnar total for all funds of a particular fund type. They are not comparable to the individual fund financial statements presented in prior years.
- B. Fund Structure**—Also to adopt the requirements of NCGA Statement 1, the State has reclassified its financial activities under a new fund structure in the accompanying financial presentations. Fund balances and retained earnings as of July 1, 1982 have been restated for the change in fund structure and are not comparable to prior years' financial statements.
- C. Reporting Entity**—To adopt the requirements of NCGA Statement 3, the State has included operations of vocational-technical centers and bonding activity of the Board of Housing in the accompanying financial statements for the first time. Fund balances and retained earnings as of July 1, 1982 have been restated for the change in reporting entity.

3. ACCOUNTING CHANGES/CORRECTION OF ERRORS

For the fiscal year ended June 30, 1983, the following prior period adjustments have resulted in beginning fund equity restatements to reflect the State's financial position according to generally accepted accounting principles (GAAP):

FUND TYPE	Increase (Decrease)—expressed in thousands					
	A	B	C	D	E	TOTAL
General	\$ 1,362	\$ 2,239	\$	\$ (1,146)	\$ 593	\$ 3,048
Special Revenue	2,793	2,483	(95)	(8,583)	56	(3,346)
Debt Service		139				139
Capital Projects	4	635				639
Enterprise	196	54				250
Internal Service	988	100	(18)		(59)	1,011
Expendable Trust		841		(5,388)		(4,547)
Nonexpendable Trust	711	313		(464)		560
Pension Trust	157	12,057	205		140	12,559
TOTALS	\$ 6,211	\$ 18,861	\$ 92	\$ (15,581)	\$ 730	\$ 10,313

- A. Encumbrances—The State has changed its method of reporting encumbrances to comply with generally accepted accounting principles. Previously, encumbrances outstanding at year-end were reported as expenditures/expenses. In the accompanying financial statements, encumbrances are reported as a reservation of fund balance or retained earnings. To be consistent with budgetary practices, the State has reported the encumbrances as expenditures on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (Budget Basis). Fund balances and retained earnings as of July 1, 1982 have been restated for the change.
- B. Accrual of investment interest income not previously reported.
- C. To account for fixed assets associated with entities which were reclassified due to a change in fund structure, as discussed further in Note 2. B.
- D. To account for the exchange of fixed income securities using the completed transaction method versus prior usage of the deferral/amortization method.
- E. Miscellaneous restatements.

4. BUDGETARY BASIS VS. GAAP

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual (Budget Basis), General Fund and Special Revenue Fund Type presents comparisons of the legally adopted budget with actual data on a budgetary basis. Adjustments necessary to convert fund balances from the budgetary basis to the GAAP basis shown on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—All Governmental Fund Types follow:

	General	Special Revenue	Totals
Fund Balance (GAAP Basis)	\$ 63,193	\$ 191,172	\$ 254,365
Encumbrance Adjustment (1)	(2,261)	(9,054)	(11,315)
Other Adjustments (2)	(15,932)	33,038	17,106
Fund Balance (Budgetary Basis)	\$ 45,000	\$ 215,156	\$ 260,156

Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. There were no expenditures in excess of total authorized appropriations in the State's individual governmental funds for the year.

Adjustment Explanations (See Note 1, D-F for additional budget information.)

- (1) The GAAP basis statement is adjusted for encumbrances which are reported as expenditures on the budgetary statement.
- (2) Due to budgetary requirements, certain transactions must charge an appropriation which results in expenditure activity that is not in accordance with generally accepted accounting principles (GAAP). For example, when funds are loaned to non-state organizations, the reduction in cash is offset with an appropriated expenditure, rather than a loan receivable. Expenditures in the budgetary basis statement include this type of activity; the GAAP basis statement does not. Another difference between the two statements is nonbudgeted expenditures, such as the write-off of bad debts.

5. INTERFUND LOANS

Individual fund loan receivable and payable balances at June 30, 1983 are as follows:

<u>Fund</u>	<u>Interentity Loans Receivable</u>	<u>Interentity Loans Payable</u>
General Fund	\$ 1,047,860	\$
Special Revenue Fund		
State Special Revenue Fund	21,327,764	800,000
Federal Special Revenue Fund	454,350	16,616,501
Other Special Revenue Funds		3,700,000
Capital Projects Fund		
Capitol Land Grant		796,362
Internal Service Fund		
Motor Pool		32,613
Prison Ranch	40,000	
Other Internal Service Funds		1,161,498
Expendable Trust Fund		
Unemployment Insurance	237,000	
Higher Education Current Fund		
Unrestricted Fund	4,343,729	245,000
Designated Fund	236,000	1,765,266
Auxiliary Fund	88,508	407,986
Restricted Fund	245,543	2,117,563
Higher Education Fiduciary Fund		
Agency Fund	50,000	129,383
Higher Education Plant Fund		
Unexpended Plant Fund	278,918	16,500
Debt Service Plant Fund	3,000	564,000
	<u>\$ 28,352,672</u>	<u>\$ 28,352,672</u>

6. LONG-TERM DEBT

Bonded long-term debt of the State at June 30, 1983 is as follows:

General Obligation Bonds

Series 1980. Issued \$19,130,000, 6.5% to 8.5%, due in principal payments of \$250,000 in 1984 to \$1,440,000 in 2010	\$ 18,485,000
Series 1981. Issued \$36,550,000, 9% to 12%, due in principal payments of \$2,435,000 in 1984 to \$2,440,000 in 1996	31,680,000
Highway Building Complex Bonds. Issued \$7,400,000, 4.10% to 6.10%, due in principal payments of \$305,000 in 1984 to \$600,000 in 1996	5,675,000
Series 6. Montana College of Mineral Sciences and Technology, Physical Ed. Building. Issued \$2,275,000, 4.5% to 6.5%, due in principal payments of \$40,000 in 1984 to \$150,000 in 2008	2,100,000

Revenue Bonds

Series 1, 1965. Issued \$8,640,000, 1% to 4%, due in principal payments of \$305,000 in 1984 to \$465,000 in 1996	4,145,000
Series 2, 1967. Issued \$11,050,000, .10% to 5%, due in principal payments of \$345,000 in 1984 to \$25,000 in 1997	6,515,000
Department of Highways Series 1983. Issued \$64,000,000, 6.75% to 8.25%, due in principal payments of \$11,075,000 in 1986 to \$14,755,000 in 1990	64,000,000
University Funds Issues:	
Montana State University	16,481,000
University of Montana	14,385,000
Eastern Montana College	3,511,000
Northern Montana College	2,792,000
Western Montana College	1,246,000
Montana College of Mineral Sciences and Technology	1,089,000
Charlo Water Supply Bonds	5,000

Other Long-Term Debt (LTD)

Employment Security Division Building mortgage bonds. Issued \$1,390,000, 8%, due in payments of \$123,330 in 1984 and \$15,690 in 1988	447,360
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Total Bonded Long-Term Debt \$ 172,556,360

The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt listed above. The revenue bonds and mortgage bonds are secured by a pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities.

Debt service requirements for principal and interest for all bonded long-term debt is as follows:

For the Year Ending June 30	Gen Oblig. Bonds	Revenue Bonds	Other LTD	Total Requirements
1984	\$ 8,138,870	\$ 8,254,023	\$ 60,000	\$ 16,452,893
1985	7,849,858	9,467,138	60,000	17,376,996
1986	7,552,907	9,197,689	60,000	16,810,596
1987	7,263,258	19,661,913	60,000	26,985,171
1988	6,965,322	19,788,767	13,786	26,767,875
1989-2010	69,913,938	95,370,095		165,284,033
Total	\$ 107,684,153	\$ 161,739,625	\$ 253,786	\$ 269,677,564*

*Includes \$109,360,706 representing Bonds to be refunded as described below.

A summary of changes in General Long-Term Debt for the year ending June 30, 1983 follows:

	Balance July 1, 1982	Issues	Redemptions	Balance June 30, 1983
General Obligation Bonds	\$ 60,935,000	\$	\$ 2,995,000	\$ 57,940,000
Revenue Bonds	52,177,500	65,350,000	3,358,500	114,169,000
Other Long-Term Debt	577,433		130,073	447,360
Total	\$ 113,689,933	\$ 65,350,000	\$ 6,483,573	\$ 172,556,360**

**Amounts available in Debt Service Funds at June 30, 1983 to service General Obligation Bonds, Revenue Bonds, and Other Long-Term Debt are \$22,152,033, \$1,040,606, and \$0, respectively.

Board of Housing Revenue Bonds

The Montana Board of Housing (Housing Authority) is authorized to have an aggregate of \$675 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor may include in the executive budget submitted to the Legislature the sum required to fund possible future deficiencies in required reserves. Although the Legislature is not legally required to appropriate such deficiencies, such revenue bonds are commonly referred to as moral obligation bonds of the State. The board issued \$30 million in bonds during fiscal year 1983. Bonds outstanding at June 30, 1983 were as follows:

Single-Family Mortgage Bonds	\$ 323,745,000
Multi-Family Mortgage Bonds	\$ 15,245,000
Total	\$ 338,990,000

Refunding Bonds

On August 10, 1983 the State issued general obligation refunding bonds in the amount of \$58,160,000 to refund the State's obligation with respect to certain bond issues already outstanding. The proceeds of the refunding issues have been placed in an escrow account and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the following refunded issues: Series 1980, Series 1981, Series 1—1965 and Series 2—1967.

Long Range Building Program Bonds

On October 17, 1983 the State issued General Obligation Long Range Building Program Bonds in the amount of \$39,330,000. The proceeds of the bonds will be used in conjunction with other State funds to pay costs of constructing, renovating or purchasing land and buildings. The major projects included are:

- Expansion of the State Prison
- Construction of a new Department of Natural Resources and Conservation Building
- Expansion of Greenhouse Complex at Montana State University
- Construction of Engineering Lab/Classroom at Montana College of Mineral Science and Technology
- Construction and Renovation of Fish Hatcheries
- Expansion of Veterans' and Pioneer Memorial Building
- Statewide Airport Improvements

Water Development Bonds

On October 17, 1983 the State issued General Obligation Water Development Bonds in the amount of \$1,300,000. The proceeds of the bonds will be used to make loans to political subdivisions and private individuals in the State for various water development projects. The bonds are general obligations of the State and are additionally secured by a pledge of certain coal severance taxes. The bonds represent the first of a \$5 million issue authorized by the 1981 Legislature. The remaining \$3.7 million have not been sold.

Highway Revenue Bond Anticipation Notes

On September 1, 1983 the State Department of Highways issued Highway Revenue Bond Anticipation Notes in the amount of \$39,075,000. The Note proceeds together with investment income thereon and other available funds, are expected to be used to finance a portion of the cost of construction of certain designated public highways within the State. The Notes are limited obligations of the State, payable solely from proceeds of anticipated Department of Highways refunding bonds or notes to the extent not paid from other sources.

Authorized but Unissued

A bond issue of \$5,000,000 was authorized by the 1975 Legislature for the issuance of renewable resource development bonds. The issue has not been sold.

7. PENSION PLANS AND DEFERRED COMPENSATION PLAN

Pension Plans

The State maintains nine pension systems. All the systems provide basic retirement benefits, including early retirement, disability, regular retirement, and death benefits. All systems also provide for termination payments. The nine pension systems are:

1. Public Employees' Retirement System
2. Teachers' Retirement System
3. Judges' Retirement System
4. Highway Patrolmen's Retirement System
5. Sheriffs' Retirement System
6. Game Wardens' Retirement System
7. Municipal Police Officers' Retirement System
8. Volunteer Firefighters' of Unincorporated Areas Retirement System
9. Firefighters' Unified Retirement System

All the systems except Teachers' Retirement are administered by the Public Employees' Retirement Division.

The two largest and most significant pension plans are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

Public Employees Retirement System

PERS, a mandatory system, provides pension services to employees of the State and participating political subdivisions. The system is funded on an "entry-age normal cost basis. This method establishes a "normal cost for each member, as well as an unfunded accrued liability. The annual normal cost is the level percentage of annual salary required to fund the benefits, assuming that percentage had been contributed since the member's entry into the system. To maintain the fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period of 40 years.

PERS members are eligible for retirement benefits at age 60 with a minimum of 5 years of service. Early retirement, at an actuarially reduced benefit, may be taken at age 50 with 5 years of service. An employee with 30 years of service may retire at any age; with 25 years of service at an actuarially reduced benefit amount.

The system is funded by contributions from employees and employers. The contribution rates, based on gross wages, are 6% for employees and 6.32% for employers.

Actuarial valuations are performed every two years. The last completed valuation was for the period ended June 30, 1982. On that date, the unfunded liability was \$273.5 million.

The PERS balance sheet reports book value of assets as of June 30, 1983 of \$379.2 million. The aggregate market value of securities was \$286.4 million. According to the actuarial assumptions employed, the consulting actuaries concluded that the current contribution rate of 12.32% is sufficient to meet currently accruing liabilities of the system and amortize the existing unfunded liability within a period of 42.47 years. Investment of available funds at 7% was assumed.

PERS had approximately 26,879 active members, 8,774 inactive members, and 6,716 retired members as of June 30, 1982. Members become vested after five years of membership.

Teachers Retirement System

TRS is operated by the Teachers Retirement Division. It provides retirement services and membership is mandatory for all persons employed as teachers or professional staff of any public elementary or secondary school or unit of the university system. Membership is also available to any person employed by the Superintendent of Public Instruction (where job duties pertain to instructional services) and any member of the instructional staff of various State custodial institutions. The TRS, as of June 30, 1981, had 14,936 active and 4,486 retired members. Members become vested after five years of membership.

As with PERS, the Teachers Retirement System utilizes the "entry-age normal funding basis. Contributions are paid by employees (6.187% in 1983 and 7.044% in 1984) and employers (6.432% in 1983 and 7.32% in 1984) on gross salaries.

Actuarial valuations are performed every two years. The last valuation was for the period ended June 30, 1981. On that date, the unfunded liability was \$402.6 million. The period required to fund currently maturing liabilities of the system and amortize the existing unfunded liability is 48.5 years at a recommended contribution rate of 13.339%. Investment of available funds at 7% is assumed. The book value of assets as of June 30, 1983 was \$290.2 million. The aggregate market value of securities was \$213.6 million.

TRS members are eligible for retirement at the same ages as PERS members with the requirement that the last 5 years of eligible employment be within Montana. The system has a mandatory retirement age of 70, with exceptions granted university staff by the Board of Regents.

The last reported disclosures for the two major pension systems were:

	PERS	TRS
Participating Employees (6-30-83)	35,559	22,687
Pension Plan Expense (6-30-83)	792,000	536,000
Employee Contributions (6-30-83)	22,671,919	20,786,014
Employer Contributions (6-30-83)	23,151,520	20,158,344
Actuarial Present Value of vested accumulated plan benefits:		
(6-30-82)	460,966,205	
(6-30-81)		413,870,000
Actuarial present value of nonvested accumulated plan benefits:		
(6-30-82)	15,966,315	
(6-30-81)		11,810,000
Net Assets available for benefits		
(6-30-83)	370,839,615	284,130,828
Unfunded liability:		
(6-30-82)	273,524,351	
(6-30-81)		402,612,325
Assumed Rate of Return used by actuary	7%	7%
Assumed inflationary increase for future salaries	5.5%	5.5%

The unfunded liabilities in the other seven systems as of June 30, 1982 were:

Highway Patrol Retirement System	\$ 10,872,809
Game Wardens Retirement System	4,169,898
Sheriffs Retirement System	2,819,340
Montana Judges' Retirement System	5,561,446
Municipal Police Retirement System	31,062,325
Volunteer Firefighters Retirement System(1)	-0-
Unified Firefighters Retirement System	41,340,507

- (1) The Volunteer Firefighters Retirement System has no unfunded liability because it is required by law to be fully funded and cannot pay benefits unless money is available.

Deferred Compensation

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to defer state and federal income taxes on a portion of their salaries. All employees of the State are eligible to participate. The plan operates under the sanction of both state and federal laws.

Participants' rights created under the plan are equivalent to those of general creditors of the State and only in an amount equal to the fair market value of the deferred account maintained with respect to the participant, determined as if the deferred amounts had been invested pursuant to the participants' investment specifications. It is the opinion of the Department of Administration's legal counsel that the state has no liability for losses under this plan, but does have the duty of care which would be required of an ordinary prudent investor. As of June 30, 1983, the net assets of the plan available for benefits totalled \$16,039,884.

8. FIXED ASSETS

Fixed asset balances as of June 30, 1983 and the changes since June 30, 1982 follow:

	<u>6-30-82 Balance</u>	<u>Net Additions (Reductions)</u>	<u>6-30-83 Balance</u>
<u>PROPRIETARY FUNDS</u>			
Land	\$ 918,620	\$ 6,303	\$ 924,923
Buildings & Improvements	2,835,608	140,429	2,976,037
Equipment	37,919,547	6,881,796	44,801,343
Other Fixed Assets	200,465	1,580,941	1,781,406
Construction in Progress	306,401	(11,645)	294,756
Total	\$ <u>42,180,641</u>	\$ <u>8,597,824</u>	\$ <u>50,778,465</u>
Less Accumulated Depreciation			<u>(20,723,474)</u>
Total			\$ <u>30,054,991</u>
<u>NONEXPENDABLE TRUST FUNDS</u>			
Land	\$ <u>49,398,756</u>	<u>0</u>	\$ <u>49,398,756</u>
Total	\$ <u>49,398,756</u>	<u>0</u>	\$ <u>49,398,756</u>
<u>HIGHER EDUCATION FUNDS</u>			
Land	\$ 2,636,553	\$ 4,851,727	\$ 7,488,280
Buildings & Improvements	211,783,128	(27,370,960)	184,412,168
Equipment	41,846,055	2,609,388	44,455,443
Other Fixed Assets	32,068,448	(8,596,294)	23,472,154
Construction in Progress	26,012,026	3,345,991	29,358,017
Total	\$ <u>314,346,210</u>	\$ <u>25,160,148</u>	\$ <u>289,186,062</u>
<u>GENERAL FIXED ASSETS ACCOUNT GROUP*</u>			
Land	\$ 30,429,103	\$ 3,606,701	\$ 34,035,804
Buildings & Improvements	112,150,191	10,781,798	122,931,989
Equipment	32,812,120	6,575,782	39,387,902
Other Fixed Assets	735,852	105,100	840,952
Construction in Progress	<u>22,009,150</u>	<u>7,286,445</u>	<u>29,295,595</u>
Total	\$ <u>198,136,416</u>	\$ <u>28,355,826</u>	\$ <u>226,492,242</u>

*Montana does not include purchased and donated art collections held by the Montana Historical Society on the balance sheet. It is not feasible to value these assets in accordance with generally accepted accounting principles. For insurance purposes, the collections have been valued at \$29,994,569.

9. CONTINGENCIES

The State is a defendant in numerous lawsuits involving tort claims which are either covered under the State's self-insurance plan or by private insurance. The State has a self-insurance plan whereby certain reserves are established in the budget for each fiscal year to provide for payment of liabilities which may be incurred. With regard to the pending litigation, it is the opinion of the Attorney General and the Department of Administration counsel that the level of coverage and reserves are adequate and that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially affect its financial position. Any noncovered judgments are referred to the Legislature for consideration in establishing the next biennial budget.

The State is the principal defendant in several lawsuits challenging the imposition of oil, gas and coal severance taxes on Indian reservations and related lands. In 1978 the Crow Tribe of Indians commenced a suit in federal district court for a declaratory judgment that the imposition of the Coal Severance Tax on coal beneficially owned by the Tribe is invalid. Although the district court dismissed the complaint, the Ninth Circuit Court of Appeals reversed the district court's decision in July 1981 and the State's petition for certiorari to the U.S. Supreme Court was denied on October 12, 1982. On November 19, 1982, the Crow Tribe amended its complaint to seek a refund of all coal severance and gross proceeds taxes paid. On January 6, 1983, the district court granted the Crow Tribe's motion to escrow tax payments pending the outcome of litigation. The State estimates that approximately \$50 million of severance taxes have been paid since 1975 that possibly could be affected by the case. In addition, \$10 million of taxes on coal production has been paid to Big Horn County. The State considers that it has meritorious defenses to the claims and intends to vigorously defend the action. It further estimates that a trial and possible appeals will take several years. If the Tribe should prevail the State Legislature could, upon a three-fourths vote of the members of each house, appropriate funds from the coal severance tax trust fund to pay any judgment in favor of the Tribe. The State believes there will be sufficient funds in said trust fund to pay any such judgment.

The Blackfeet Tribe of Indians sued in 1978 for a declaratory judgment that all taxes on production of oil and gas beneficially owned by the Tribe are invalid. The federal district court dismissed the complaint and the Tribe appealed to the Ninth Circuit Court of Appeals. In December 1982, the court of appeals upheld the judgment of the district court. The Tribe has petitioned for rehearing. The rehearing has been granted and will be heard before an eleven member panel in November, 1983. Various oil and gas producers have paid taxes amounting to approximately \$5 million under protest during the pendency of the case. The State believes that it has meritorious defenses to the claims.

The Department of Revenue is the defendant in a lawsuit brought by two savings and loan associations protesting the inclusion of interest income from federal obligations in the determination of net income for purposes of the Montana corporation license tax. On September 23, 1982, the Montana Supreme Court reversed a district court ruling and held that the inclusion of interest on federal obligations is not permissible under federal statutes. The Department of Revenue's Petition for Certiorari with the U.S. Supreme Court was denied June 20, 1983. However, Senate Bill 335, passed by the 1983 Legislature, resolved the issue in favor of the State, and made application retroactive. Administrative challenges to the constitutionality of the legislation have been filed and litigation is contemplated. The Department estimates that approximately \$8.6 million is at issue. Of such amount \$1.7 million would be from the State and \$6.9 million would be from local government units.

The State receives federal grants and entitlements for specific purposes which are subject to review and audit by the grantor agencies. Any disallowances as a result of these audits would become a liability of the State. As of June 30, 1983, the State estimates that no material liabilities will result from such audits.

0. LEASES

The State has entered into various capital and operating leases for land, buildings and equipment. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

Future minimum lease payments under the capital leases are as follows:

Fiscal Year Ending June 30	
1984	\$ 997,621
1985	690,617
1986	281,310
1987	107,813
1988	97,825
After 1988	<u>1,082,029</u>
Total minimum lease payments	<u>\$ 3,257,215</u>

Future rental payments for operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	
1984	\$ 1,634,933
1985	1,204,225
1986	514,192
1987	346,227
1988	213,898
After 1988	<u>83,330</u>
Total future rental payments	\$ <u>3,996,805</u>

The State Department of Administration was authorized to enter into a ten year interest bearing lease purchase contract, subject to biennial appropriation, for the purchase of a telephone system. The system was financed in September 1983 by the delivery of \$11,000,000 certificates of participation in the lease purchase contract.

11. SEGMENT INFORMATION

The State has two major enterprise operations—the Housing Authority and the Liquor Division of the Department of Revenue.

The Housing Authority provides financing to qualified individuals to purchase residential housing. In order to do so, the board issues bonds and carries federally insured mortgage notes.

The Liquor Division of the Department of Revenue administers the state liquor operations. In addition to selling liquor and wines, the division issues licenses and permits to wholesalers and retailers and collects taxes.

Selected financial information concerning these enterprises is as follows (expressed in thousands):

	<u>Housing Authority(1)</u>	<u>Liquor Division</u>
Operating Revenues	\$ 29,453	\$ 53,838
Depreciation	(*)	109
Operating Transfers In (Out)	0	(15,265)
Operating Income (Loss)	3,585	15,706
Net Property, Plant & Equip.		
Additions	8	56
Net Working Capital	(1,129)	6,650
Total Assets	359,297	13,161
Bonds Payable From Operating		
Revenues	331,806	0
Total Equity	21,636	8,512

(1) Source: Montana Board of Housing Financial Report, Fiscal Year 1983.

(*) Fixed assets are reported net of depreciation; no dollar amount is available.

12. SHORT-TERM DEBT

The Board of Examiners, upon recommendation by the Department of Administration, may issue notes in anticipation of the receipt of taxes and/or revenues as the legal demands on the treasury during any fiscal year make it necessary. No more than \$50 million may be outstanding at any point in time. The notes must be redeemed before June 30 of the fiscal year in which issued. No short-term notes may be issued to refund outstanding short-term notes. During fiscal year 1983, \$47 million principal amount of such notes were issued. These Tax and Revenue Anticipation Notes were redeemed on June 29, 1983.

13. COMMITMENTS

The State has major long-term commitments under unperformed contracts. As of June 30, 1983, material commitments were related to projects for state highway and building construction in the following amounts:

Department of Highways contracts	\$ 82,634,595
Department of Administration	
Architecture & Engineering Division contracts	\$ 18,978,907

14. FUND DEFICITS

Two funds have a deficit in fund equity as of June 30, 1983. The Capitol Land Grant Fund has a deficit of \$725,000. State statute has appropriated to a debt service fund an amount from the Capitol Land Grant Fund sufficient to pay the principal and interest on bonds issued to improve the state capitol. In fiscal year 1983, revenues were insufficient to meet this requirement. An interentity loan was granted from the General Fund to the Capitol Land Grant Fund. This loan was repaid in October 1983.

The fund equity deficiency in the Unemployment Insurance Fund is the result of borrowing from the Federal government. (See Note 15).

15. UNEMPLOYMENT COMPENSATION

Unemployment compensation benefits are funded in the State through unemployment compensation taxes levied against employers. The moneys collected from this tax are deposited in the Unemployment Insurance Clearing Account and subsequently transferred daily to a trust fund in Washington, D.C., the trustee of which is the United States Secretary of the Treasury. The moneys are then transferred back to the State on the basis of a weekly request by the Montana Department of Labor and Industry to pay benefits incurred in that week. The moneys then received are deposited in the Montana Unemployment Insurance Benefit Account and are disbursed as unemployment insurance benefit payments.

If the State trust fund is insufficient to meet demands, the State may borrow from the Federal trust fund. As of June 30, 1983, the State had borrowed approximately \$8.6 million from the Federal Unemployment Trust Fund. The Montana Department of Labor and Industry anticipates borrowing approximately \$18 million for the period January, 1984 through April, 1984. Legislation was passed by the 1983 Legislature to allow for payment of future interest expense.

16. REDUCTION IN VALUE OF LIVESTOCK

Livestock at the Prison Ranch is recorded at market value. The change in the market value of the livestock from year to year is the result of several factors including fluctuating market prices, change in the number of head of livestock, and changes in the animals' weight.

17. NONEXPENDABLE TRUST INVESTMENT INCOME

All investments are recorded in the nonexpendable trust fund type on the full accrual basis. However, investment earnings attributable to these trusts are recorded elsewhere, as summarized below:

<u>Nonexpendable Trust Funds</u>	<u>Reporting of Investment Earnings</u>
Permanent Coal Tax Trust	Investment earnings are reported in the General Fund.
Education Trust	Ten percent of investment earnings stay in the Education Trust Fund; 67.5% goes to the Office of Public Instruction for public schools and the remaining 22.5% goes to the Board of Regents for Higher Education, both in the State Special Revenue Fund.
Resource Indemnity Tax Trust	Investment earnings are recorded in a separate accounting entity (Resource Indemnity Trust Fund Interest) in the State Special Revenue Fund.
Parks, Cultural and Aesthetic Projects	Investment earnings are distributed two-thirds to the Department of Fish, Wildlife and Parks and one-third to the Historical Society, both in the State Special Revenue Fund.

August , 1984

Board of Examiners
 State of Montana
 Capitol Station
 Helena, Montana 59620

Gentlemen:

We have examined a record of proceedings relating to the issuance of \$10,485,000 principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds").

The Bonds are authorized to be issued pursuant to MCA Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (collectively referred to as the "Enabling Act"), a General Resolution and a 1984 Series A Supplemental Resolution each adopted August 1, 1984 (collectively referred to as the "Bond Resolution") of the Board of Examiners consisting of the Governor, Secretary of State and Attorney General, and other proceedings relating thereto. Capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed thereto in the Bond Resolution.

The Bonds are issued as fully registered bonds, are dated August 1, 1984, and will mature on December 1 in the following years, in the respective principal amounts, and will bear interest from August 1, 1984 (payable semiannually on the first days of June and December of each year, commencing December 1, 1984) at the respective rates per annum, set forth opposite such years in the following table:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985.....	\$ 190,000	6¾ %
1986.....	205,000	7.20
1987.....	220,000	7.40
1988.....	235,000	7.70
1989.....	255,000	8
1990.....	275,000	8¼
1991.....	300,000	8½
1992.....	325,000	8¾
1993.....	350,000	9
1994.....	385,000	9.20
1995.....	420,000	9.40
1996.....	460,000	9½
1999.....	1,660,000	10¼
2005.....	5,205,000	10¼

The Bonds are subject to redemption prior to maturity in whole or in part at such time or times, under such circumstances including the payment of sinking fund installments, at such redemption prices, and in such manner as set forth in the Bond Resolution. The Board has the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution.

The Bonds are issued to provide moneys with which to make loans to various local government units, political subdivisions and water users' associations in the state of Montana (the "State") to finance various water development projects.

We are of the opinion that:

(1) Under the Constitution and laws of the State the Enabling Act has been duly enacted, and the State, acting through the Board of Examiners, has the power (i) to become indebted by the issuance of the Bonds, (ii) to adopt the Bond Resolution, and (iii) to perform its obligations under the terms and conditions of the Bonds and the Bond Resolution.

(2) The Bond Resolution has been duly adopted by the Board of Examiners, is valid and binding upon the State, is enforceable in accordance with its terms and creates the valid pledge which it purports to create with respect to the Pledged Tax Revenues, the 1984 Series A Pledged Project Revenues, the proceeds of the Bonds, and the contents of the Debt Service Reserve Account and the Surplus Project Revenue Account. All conditions precedent to the adoption of the Bond Resolution have been met and no other or further authorization for the Bond Resolution or the issuance of the Bonds is required.

(3) The Bonds are legal, valid and binding limited obligations of the State payable solely from Pledged Tax Revenues and 1984 Series A Pledged Project Revenues, as defined in the Bond Resolution, and the proceeds of the Bonds, and are further secured by the amounts in the Debt Service Reserve Account and the Surplus Project Revenue Account.

(4) The adoption of the Bond Resolution and the issuance of the Bonds thereunder will not conflict with nor constitute a breach of or default under any law, regulation or agreement relating to indebtedness of the State to which the State is subject or is otherwise a party. There is no constitutional debt limit applicable to the Bonds, and the amount of Bonds issued is within the statutory limit therefor.

(5) Under existing laws, regulations, rulings and decisions, interest on the Bonds is exempt from federal income taxes.

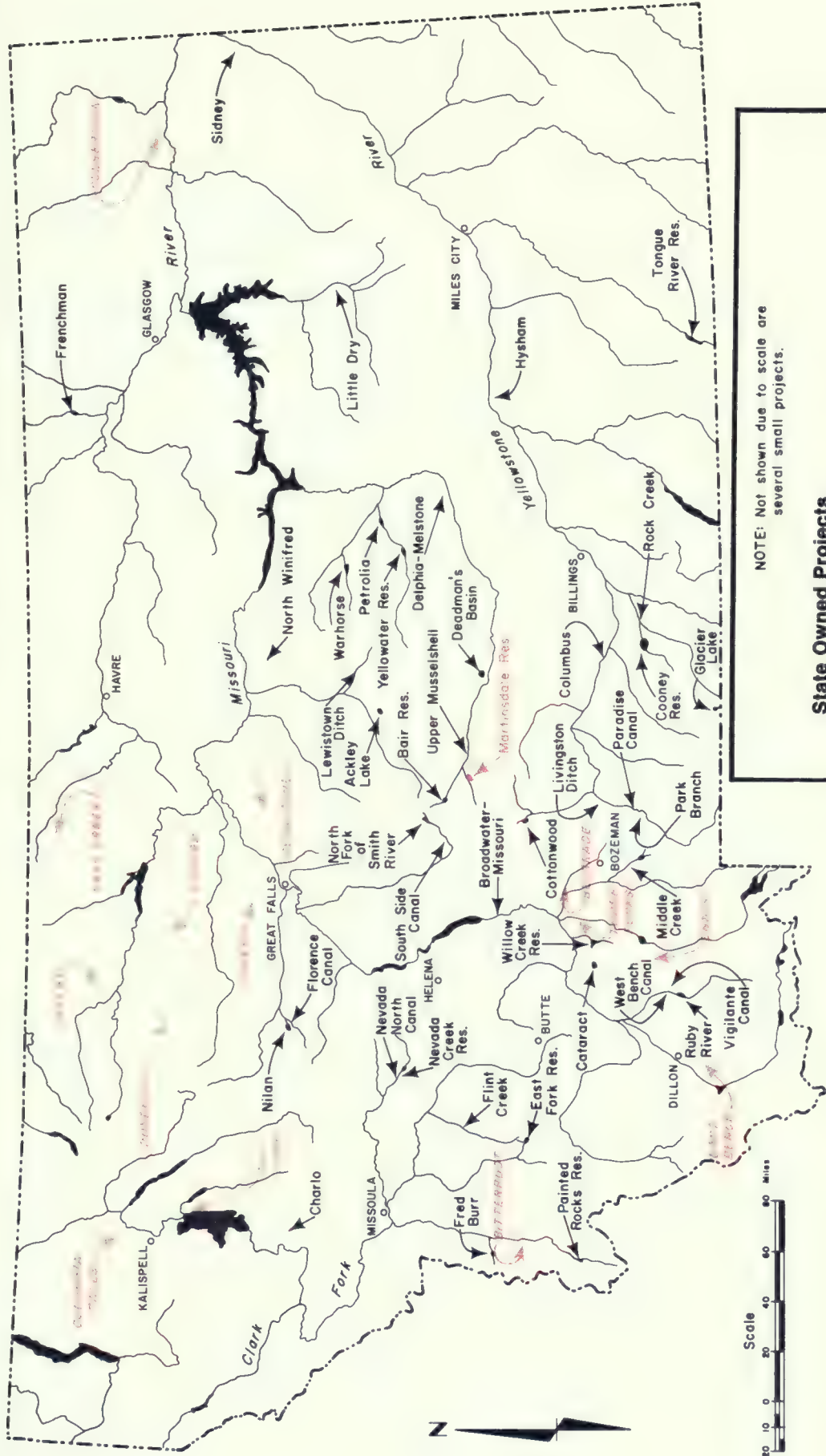
(6) Under existing Montana laws, interest on the Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

We have examined an executed Bond and in our opinion the form of said Bond and its execution are regular and proper.

In rendering this opinion, we advise you that the enforceability of rights and remedies with respect to such Bonds and the Bond Resolution may be limited by bankruptcy, insolvency or other laws heretofore or hereafter enacted affecting creditors' rights or remedies.

Very truly yours,

Montana Water Projects



NOTE: Not shown due to scale are several small projects.

State Owned Projects

Projects Financed with the 1984 Series Bonds

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No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof.

Information herein has been obtained from the State of Montana and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriters.

\$10,485,000
State of Montana
Coal Severance Tax Bonds
Department of Natural
Resources and Conservation
Water Development Program
1984 Series A

OFFICIAL STATEMENT

The First Boston Corporation
Dain Bosworth
Incorporated
D. A. Davidson & Co.
Incorporated

Dated August 1, 1984

August 1, 1984

\$10,485,000
STATE OF MONTANA
COAL SEVERANCE TAX BONDS
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM .
1984 SERIES A

PURCHASE CONTRACT

Montana Board of Examiners
Montana Department of
Administration
Sam W. Mitchell Building
Room 155
Capitol Station
Helena, MT 59620

Dear Sirs:

The undersigned (hereinafter sometimes called the "Managers or "Purchasers"), hereby offer to enter into the following agreement with you (hereinafter sometimes called the "Board") which, upon your acceptance of this offer, will be binding upon you and upon the Purchasers. This offer is made subject to your acceptance of this Purchase Contract on or before 12:00 noon, New York time, on August 2, 1984, and if not so accepted, will be subject to withdrawal by the Purchasers upon notice delivered to the Board at any time prior to the acceptance hereof by the Board.

1. Upon the terms and conditions hereof and in reliance on the representations, warranties and covenants contained in this Purchase Contract and any certificate or other documents delivered to the Purchasers pursuant to this Purchase Contract, the Purchasers, jointly and severally, hereby agree to purchase from the Board, and the Board hereby agrees to sell to the Purchasers, all (but not less than all) of the \$10,485,000 principal amount of State of Montana, Coal Severance Tax Bonds, Department of Natural Resources and Conservation, Water Development Program, 1984 Series A (the "Bonds"). The Bonds will be dated August 1, 1984 and will have the maturities and bear interest at the rates per annum shown on the cover page of the Official Statement (as herein defined), such interest being payable on December 1, 1984 and semiannually thereafter on each June 1 and December 1. The purchase price for the Bonds will be \$10,206,601.00 plus interest accrued on the Bonds from August 1, 1984 to the date

of payment for and delivery of the Bonds (such payment and delivery and the other actions contemplated hereby to take place at the time of such payment and delivery, herein sometimes called the "Closing").

2. The Bonds will be as described in, and will be issued and secured under the provisions of a resolution adopted by the Board on August 1, 1984 (the "General Resolution") as supplemented by a resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution"). The General Resolution and the Supplemental Resolution are hereinafter collectively referred to as the "Bond Resolution."

3. The Purchasers have heretofore designated The First Boston Corporation as their representative (the "Representative") and have duly authorized the Representative to execute this Purchase Contract and to act hereunder by and on behalf of the Purchasers.

4. It will be a condition (i) to the obligations of the Board to sell and to deliver the Bonds to the Purchasers, and (ii) to the obligations of the Purchasers to purchase, to accept delivery of and to pay for the Bonds, that the entire \$10,485,000 principal amount of the Bonds to be sold pursuant to Paragraph 1 hereof be sold and delivered by the Board and purchased, accepted and paid for by the Purchasers at the Closing. The Purchasers agree to make a bona fide public offering of all the Bonds at not in excess of the initial public offering prices set forth on the cover page of the Official Statement, plus interest accrued thereon from August 1, 1984, reserving, however, the right to change such prices as the Purchasers may deem necessary in connection with the offering of the Bonds.

5. At the time of acceptance hereof by the Board, the Board shall deliver to the Representative:

(a) A copy of the Official Statement relating to the Bonds, in the form heretofore delivered to the Representative (which, including all appendices and statements included therein or attached thereto, is herein called the "Official Statement"), manually executed on behalf of the State of Montana (the "State") by the Board and the Director of the Montana Department of Natural Resources and Conservation (the "Department"), with Appendix C, the financial statements of the State and the report thereon of the Office of the Legislative Auditor, State of Montana, manually executed by that auditor;

(b) A copy of the General Resolution certified by the Board as having been duly adopted by the Board and as being in effect; and

(c) A copy of the Supplemental Resolution certified by the Board as having been duly adopted by the Board and as being in effect.

The Board hereby authorizes the Bond Resolution and Official Statement and the information therein contained to be used by the Purchasers in connection with the public offering and the sale of the Bonds. The Board confirms that it has authorized the use by the Purchasers prior to the date hereof of the Preliminary Official Statement and the information contained therein and the form of the General Resolution and the Supplemental Resolution in connection with the public offering of the Bonds. The Board shall provide the Purchasers with such quantities of such documents as the Purchasers may reasonably request.

6. The Board represents and warrants to, and agrees with, each of the Purchasers that:

(a) The Board, on behalf of the State, prior to the acceptance hereof, has duly adopted the General Resolution and the Supplemental Resolution, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the Board of the obligations contained in the Bonds and this Purchase Contract, has duly authorized and approved the pledge by the State of Montana (the "State"), of the Pledged Tax Revenues and the 1984 Series A Pledged Project Revenues (each as defined in the Bond Resolution) as permitted by Montana Code Annotated, Sections 17-5-701 through 17-5-719, 1981 Montana Laws H.B. 846, and 1983 Montana Laws, Chapter 705 (the "Act"), and has duly authorized and approved the performance of its obligations and the obligations of the State contained in the Bond Resolution and the consummation of all other transactions contemplated by this Purchase Contract and the Official Statement. The Board is, and at the Closing will be, in compliance in all respects with the Act, the Bond Resolution and this Purchase Contract.

(b) The Board has, and at the date of the Closing will have, full legal right, power and authority (i) to enter into this Purchase Contract, (ii) to adopt the Bond Resolution, (iii) to make the pledge and undertaking of the State as provided for in the General Resolution,

(iv) to issue, sell and deliver the Bonds to the Purchasers pursuant to the Bond Resolution as provided herein and (v) to carry out and consummate the transactions contemplated by this Purchase Contract, the Bond Resolution or the Official Statement. The execution of this Purchase Contract and the adoption of the Bond Resolution and compliance with the provisions hereof and thereof and consummation of the transactions contemplated hereby and thereby and by the Official Statement do not and will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State, the United States or any department, division, agency or instrumentality thereof, or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the State is a party or may be otherwise subject. The State is not in breach of or default under any such provision and no event has occurred and is continuing which constitutes, or which with the passage of time or the giving of notice or both would constitute, a breach of or a default under any such provisions. There are no such provisions which, either in any case or in the aggregate, materially adversely affect or in the future might (so far as can reasonably be foreseen) materially affect the Department's business, affairs, position, results of operation or condition, financial or otherwise, or materially affect the State's, the Board's or the Department's ability to fulfill its obligations under or carry out the transactions contemplated by the Bond Resolution, the Official Statement or this Purchase Contract.

(c) The State has made all required filings with and has obtained all approvals, consents and orders from any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance by the State of its obligations hereunder and under the Bond Resolution, the Bonds and the Act.

(d) The Bonds, the General Resolution and the Supplemental Resolution conform to the descriptions thereof contained in the Official Statement; and the Bonds, when issued, executed and delivered in accordance with the Bond Resolution, and sold to the Purchasers as provided herein, will be validly issued and outstanding limited obligations of the State entitled to the benefits of the Constitution of the State, the Act and the Bond Resolution, and all actions necessary to create a legal, valid and binding pledge of the Pledged Tax Revenues and the 1984 Series A

Pledged Project Revenues (each as defined in the Bond Resolution) under the Act and the Bond Resolution and of amounts in the funds and accounts created under the Bond Resolution for the benefit of the holders of the Bonds shall have been taken.

(e) The State, under the Constitutions and laws of the State and the United States, respectively, has full legal right, power and authority to finance the Projects as described in the Official Statement (the "Projects").

(f) The financial statements of the State contained in the Official Statement fairly present the financial position and results of operations of the State and changes in fund balances of the Coal Severance Tax Trust Fund as of the dates and for the periods therein set forth, and the Board has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles consistently applied, except in both instances for the exceptions set forth in the report of the Legislative Auditor attached to said statement and in the letters required by subparagraph (e)(9) of Paragraph 8.

(g) As of the date thereof, and at the time of the Board's acceptance hereof, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) At the time of the Board's acceptance hereof and at all times subsequent thereto up to and including the date of the Closing (unless the Official Statement is amended or supplemented pursuant to subparagraph (m) of this Paragraph 6), the Official Statement (including the financial statements and all other financial and statistical data included therein) does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) If the Official Statement is amended or supplemented pursuant to subparagraph (m) of this Paragraph 6, at the time of each supplement or amendment thereto and at all times subsequent thereto up to and including the date of the Closing (unless the Official Statement is

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further amended or supplemented pursuant to subparagraph (m) of this Paragraph 6), the Official Statement as so supplemented or amended (including the financial statements and all other financial and statistical data included therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) Between the date of this Purchase Contract and the Closing, the Board will not, without the prior written consent of the Purchasers, issue any bonds, notes or other obligations for borrowed money that are payable from the Pledged Tax Revenues or the 1984 Series A Pledged Project Revenues; and, subsequent to the respective dates as of which information is given in the Official Statement up to and including the date of the Closing, the Board and the Department, with respect to the Trust Fund Bond Account, have not incurred and will not incur any material liabilities, direct or contingent, except (a) those liabilities arising in the normal course of business, or (b) those liabilities incurred with the Representative's consent.

(k) There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body, pending or, to the knowledge of the Board (upon due inquiry), threatened (i) in any way affecting the Board's powers, the Department's powers as to the implementation of its Water Development Program, the existence of the Board or the title to office of any of the officials of the Board or the Department signatory to the Official Statement, (ii) seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, or, except as disclosed in the Preliminary Official Statement or the Official Statement under the caption "Litigation," the collection of Pledged Tax Revenues or the 1984 Series A Pledged Project Revenues or other revenues or assets of the Trust Fund Bond Account or local water development projects pledged to or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, (iii) in any way contesting or affecting the validity or enforceability of the Act, the Bonds, the Bond Resolution or this Purchase Contract, (iv) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, (v) contesting the power of the Board or its authority with respect to the Bonds, the Bond Resolution or this Purchase Contract, (vi) which may adversely affect the Board, the

Department or the properties and operation of the Department, or (vii) questioning the tax-exempt status of the Bonds; nor, to the best knowledge of the Board, is there any reasonable basis therefor.

(l) The Board will furnish such information, execute such instruments and take such other action in cooperation with the Representative as the Representative may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Representative may designate.

(m) If between the date of this Purchase Contract and the date of the Closing an event occurs affecting the State, the Board or the Department of which the Board has knowledge and which would cause the Official Statement to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Board will notify the Representative, and if in the opinion of the Representative such event requires an amendment or supplement to the Official Statement, the Board will at its expense amend or supplement the Official Statement in a form and in a manner approved by the Representative.

(n) The State will apply the proceeds of the Bonds in accordance with the Bond Resolution and the Act.

(o) The State has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certificate may not be relied upon.

7. On August 15, 1984 or on such other date as may be mutually agreeable to the Representative and the Board (at least one business day prior to the Closing), the Board will deliver the Bonds to the Representative in definitive form, bearing CUSIP numbers, duly executed, together with the other documents hereinafter mentioned and subject to the terms and conditions hereof. The Representative will accept such delivery and at the closing pay the purchase price for the Bonds as set forth in Paragraph 1 hereof, less the amount of the good faith deposit provided for in paragraph 10 hereof, by a wire transfer of Federal Funds for deposit in an account specified in writing by the Board. Delivery as aforesaid will be made in New York, New York, at such place as may have been mutually agreed upon by the State and the Representative. The

Bonds will be prepared and delivered as fully registered bonds of single maturities in the denominations and registered to the owners designated by the Representative not less than five business days prior to the Closing.

8. The Purchasers have entered into this Purchase Contract in reliance upon the representations and warranties of the Board, on behalf of the State, contained herein and to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Board of its obligations hereunder at or prior to the date of the Closing. Accordingly, the Purchasers' obligation under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds is subject to the performance by the Board of its obligations to be performed hereunder and under such aforesaid documents and instruments at or prior to the Closing, and is also subject to the fulfillment to the reasonable satisfaction of the Purchasers of the following conditions:

(a) The representations and warranties of the Board contained herein will be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of Closing.

(b) At the time of the Closing, the Bond Resolution and this Purchase Contract will be in full force and effect, and will not have been amended, modified or supplemented, and the Official Statement will not have been amended, modified or supplemented, except as may have been agreed to in writing by the Purchasers.

(c) At the time of the Closing, the Board shall have adopted and there shall be in full force and effect such resolutions as in the respective opinions of Oitzinger & Mullendore, Bond Counsel, and Dorsey & Whitney, counsel to the Purchasers, shall be necessary in connection with the transactions contemplated hereby, and all necessary action of the Board relating to the issuance of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented.

(d) The undersigned may terminate the Purchasers' obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the Board of their election to do so if, at any time after the execution hereof and at or prior to the Closing:



(1) There shall occur any material adverse change, or any development involving such a change, prospectively, in or affecting particularly the business or properties of the State or the Department which, in the judgment of the Purchasers, materially impairs the investment quality of the Bonds;

(2) There shall have been instituted any action, suit, proceeding, inquiry, investigation or petition for referendum, at law or in equity, or before or by any court or governmental agency, body or official, against or affecting the State, the Board or the Department wherein an unfavorable decision, ruling or finding would, in the judgment of the Purchasers, materially adversely affect the transactions contemplated by this Purchase Contract or by the Official Statement or which, in any way, would in the judgment of the Purchasers, adversely affect the validity or enforceability of the Bonds, the Bond Resolution or this Purchase Contract;

(3) The market price of the Bonds, or the market price of general credit or revenue obligations issued by states or political subdivisions thereof, or the market price of revenue obligations of the character of the Bonds shall (in the judgment of the Purchasers) have been materially and adversely affected by reason of the fact that

(A) legislation shall have been introduced or enacted by the Congress, or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either house of the Congress of the United States by any committee of such house to which such legislation has been referred for consideration; or

(B) a decision shall have been rendered by a court established under Article III of the Constitution of the United States, or the United States Tax Court; or

(C) an order, ruling or regulation shall have been made by the Treasury Department of the United States or the Internal Revenue Service, in each such case with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any holder of the Bonds or

upon the revenues deposited in the Coal Severance Tax Trust Fund; or

(4) The market price of the Bonds, or the market price of general credit or revenue obligations issued by states or political subdivisions thereof, or the market price of revenue obligations of the character of the Bonds, shall (in the judgment of the Purchasers) have been materially and adversely affected by reason of:

(A) any material change in the national or international financial or economic situation accompanied by (1) the closing of the New York Stock Exchange, or (2) the general suspension of trading on the New York Stock Exchange, or (3) the establishment of a general banking moratorium by Federal or New York State authorities or the authorities of the State of Montana;

(B) any order, decree or injunction of any court of competent jurisdiction, or any order, ruling, regulation or administrative proceeding by any governmental agency, body or official, issued or any legislation enacted, with the purpose or effect of prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement or the Bond Resolution; or

(C) the United States becoming engaged in any major outbreak of armed hostilities.

(e) At or prior to the Closing, unless otherwise agreed to by the Purchasers in writing, the Purchasers will have received each of the following documents:

(1) The approving opinion, dated the date of the Closing and addressed to the Board, of Oitzinger & Mullendore, Bond Counsel, in substantially the form attached to the Official Statement as Appendix D, and an opinion of such counsel, dated the date of the Closing and addressed to the Purchasers, to the effect that such opinion addressed to the Board may be relied upon by the Purchasers to the same extent as if such opinion were addressed to them.

(2) An opinion, dated the date of the Closing and addressed to the Purchasers, of Oitzinger

& Mullendore, Bond Counsel, to the effect that (i) this Purchase Contract has been duly authorized, executed and delivered by, and constitutes a binding agreement in accordance with its terms, of the Board; (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Bond Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; (iii) the information contained in the Official Statement under the captions "Montana Supreme Court Decision," "The 1984 Series A Bonds" and "Security and Sources of Payment for the 1984 Series A Bonds" present a fair, accurate and complete description of the Montana Supreme Court decision so described, the Bonds, the General Resolution and the Supplemental Resolution; (iv) the contractual undertakings of the State made in the Bond Resolution are binding on the State Legislature; (v) there is no litigation or administrative action pending in any court which would restrain or enjoin the issuance, sale, execution or delivery of the Bonds or which in any way contests or affects the validity of the Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Bonds or the pledge or application of any Pledged Tax Revenues or the 1984 Series A Pledged Project Revenues provided for their payment, or which contests the powers of the State, the Department or the Board with respect to the foregoing (or, in the event any such action is pending the Managers in their sole and absolute discretion may accept an opinion of Bond Counsel that such action is without merit); in addition, such counsel will state in their letter containing the foregoing opinion, or in a separate letter dated the date of the Closing and addressed to the Purchasers, that, based upon the information made available to them in the course of their preparation of the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, as of the date of the Closing such counsel has no reason to believe that the Official Statement as of its date contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except for the financial statements and other financial, forecasted and statistical data included therein, as to which no view need be

expressed), or that the Official Statement (together with any amendments or supplements thereto pursuant to subparagraph (m) of Paragraph 6 hereof, if any), as of the date of the Closing contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except as aforesaid).

(3) An opinion, dated the date of the Closing and addressed to the Purchasers, of the Attorney General of the State, to the effect that the information contained in the Official Statement under the caption "Litigation" does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(4) An opinion dated the date of the Closing and addressed to the Purchasers, of Dorsey & Whitney, counsel for the Purchasers, to the effect that the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Bond Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; in addition, such counsel will state in their letter containing the foregoing opinion, or in a separate letter dated the date of the Closing and addressed to the Purchasers, that, based upon the information made available to them in the course of their preparation of the Official Statement as counsel for the Purchasers and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, as of the date of the Closing such counsel has no reason to believe that the Official Statement as of its date contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except for the financial statements and other financial, forecasted and statistical data included therein, as to which no view need be expressed), or that the Official Statement (together with any amendments or supplements thereto pursuant to subparagraph (m) of Paragraph 6 hereof, if any), as of the date of the Closing contains any untrue statement of a material

fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except as aforesaid).

(5) A certificate, dated the date of the Closing and signed by each of the Board and the Department officials signatory to the Official Statement, or such other officials of the Board or the Department as shall be satisfactory to the Purchasers (the "Officials"), to the effect that (i) the representations, warranties and covenants of the Board, on behalf of the State, contained herein are true and correct in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing, (ii) no litigation is pending or, to their knowledge, threatened in any court in any way affecting the title of the Officials to their respective positions, or seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, or the collection of revenues and assets of the State or the Department pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Bond Resolution or this Purchase Contract, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the Board or its authority with respect to the Bonds, the Bond Resolution or this Purchase Contract; (iii) to the best of the knowledge of the Officials, no event affecting the State, the Board or the Department has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (iv) the Board has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing. For the purpose of subparagraph (ii) above, the Officials may rely upon a certificate of the Attorney General respecting the matters set forth therein.

(6) A certificate, dated the date of the Closing and signed by the Officials, to the effect that the General Resolution has not been amended or supplemented except by the adoption of the Supplemental Resolution.

(7) A letter from the Legislative Auditor of the State dated the date of the Closing and addressed to the Purchasers in the form heretofore agreed to by the Representative.

(8) A certificate, dated the date of the Closing and signed by the Officials, to the effect that the Official Statement is true in all material respects and does not omit any statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(9) Six counterpart originals of a transcript of all proceedings relating to the authorization and issuance of the Bonds.

(10) Such additional legal opinions, certificates, instruments and other documents as the Purchasers may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the representations, warranties and covenants of the State, the Board and the Department contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Board at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the Board.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract will be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Purchasers.

If the Board is unable to satisfy the conditions to the obligations of the Purchasers to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract, or if the obligations of the Purchasers to purchase, to accept delivery of and to pay for the Bonds will be terminated for any reason permitted by this Purchase Contract, this Purchase Contract will terminate and neither the Purchasers nor the Board will be under further obligation hereunder, except the respective obligations of the Board and the Purchasers set forth in Paragraphs 9 and 10 hereof and the representations and warranties of the Board contained therein will continue in full force and effect.

9. (a) The Purchasers will be under no obligation to pay, and the Board will pay, all expenses incident to the performance of the obligations of the Board hereunder, including but not limited to (i) the cost of the preparation and printing of the Bond Resolution, the Preliminary Official Statement (including any amendments or supplements thereto) and the Official Statement; (ii) the cost of preparation, printing and signing of the Bonds; (iii) the fees and disbursements of Oitzinger & Mullendore, Bond Counsel; (iv) the fees and disbursements of the accountants and financial consultants of the Board, and of any other experts or consultants retained by the Board; (v) fees for bond ratings; and (vi) the cost of printing this Purchase Contract, the Agreement Among Managers, the Blue Sky Memorandum and the Legal Investment Survey.

(b) The Purchasers will pay: (i) the cost of preparation of this Purchase Contract, the Agreement Among Managers, the Blue Sky Memorandum and the Legal Investment Survey; (ii) all advertising expenses in connection with the public offering of the Bonds; and (iii) all other expenses incurred by them or any of them in connection with their public offering and distribution of the Bonds, including the fees and disbursements of counsel retained by them.

10. The Board hereby acknowledges receipt of a good faith deposit in the form of a check payable to the Board in clearing house funds from the Representative on behalf of the Purchasers in the amount of one percent of the principal amount of the Bonds to secure the obligations of the Purchasers hereunder. The Purchasers acknowledge and agree that the Board may cash such check, and that no interest shall be payable on the proceeds thereof while held by the Board. At the Closing, the amount of the good faith deposit shall be credited against the purchase price payable by the Purchasers. If the Purchasers default in their obligation hereunder to purchase and pay for the Bonds on the Closing, the Board shall retain said funds as liquidated damages. If the Purchasers terminate this Purchase Contract because of a default by the Board hereunder or for any other reason permitted hereby, the Board shall forthwith return the amount of the good faith deposit to the Representative.

11. Any notice or other communication to be given to the Board under this Purchase Contract must be given by delivering the same in writing at the address of the Board set forth above, and any notice or other communication to be given to the Purchasers under this Purchase Contract must be given by delivering the same in writing to The First Boston Corporation, 101 California Street, Suite 4300, San Francisco, California 94111, Attention: J. Donald Porter.

12. This Purchase Contract is made solely for the benefit of the Board and the Purchasers (including the successors or assigns of any Purchaser), and no other person may acquire or have any right hereunder or by virtue hereof. All of the representations, warranties and covenants of the Board contained in this Purchase Contract will remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of any of the Purchasers, or (ii) delivery of and payment for the Bonds pursuant to this Purchase Contract.

13. This Purchase Contract will become effective upon the execution of the acceptance hereof by the President of the Board on behalf of the Board and will be valid and enforceable as of the time of such acceptance.

Very truly yours,

THE FIRST BOSTON CORPORATION
D.A DAVIDSON & CO.
DAIN BOSWORTH INCORPORATED
as Managers

By: THE FIRST BOSTON CORPORATION
as Representative of the
Managers

By _____
Authorized Person

Accepted:

This 1st day of August, 1984.

MONTANA BOARD OF EXAMINERS

By: _____
President

State of Montana
Office of the Governor
Helena, Montana 59620

TED SCHWINDEN
GOVERNOR

CLOSING CERTIFICATE OF THE GOVERNOR
WITH RESPECT TO THE
STATE OF MONTANA COAL SEVERANCE TAX BONDS,
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM, 1984 SERIES A

I, Ted Schwinden, the duly elected, qualified and acting Governor of the State of Montana (the "State") and a Member of the Board of Examiners of the State (the "Board") hereby certify as follows:

1. As of the date of this Certificate the General Resolution adopted by the Board on August 1, 1984 (the "General Resolution") is in full force and effect and has not been amended, modified or supplemented except by the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution").

2. As of the date of this Certificate the Supplemental Resolution is in full force and effect and has not been amended, modified or supplemented.

3. As of the date of this Certificate the Purchase Contract between the Board and certain underwriters (the "Purchasers") dated August 1, 1984 (the "Purchase Contract") is in full force and effect, has not been amended, modified or supplemented, and the representations, warranties and covenants made therein by the Board on behalf of the State are true, complete and correct in all material respects, and

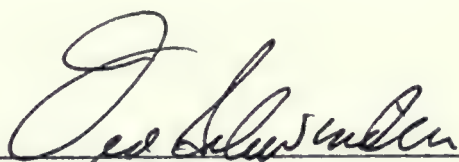
August 1, 1984, (the Official Statement") has not been amended, modified or supplemented except as may have been agreed to in writing by the Purchasers; is true in all material respects and does not omit any statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, to the best of my knowledge, no event affecting the State, the Board, or the Montana Department of Natural Resources and Conservation (the "Department") has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used, or which it is necessary to disclose in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any respect.

5. The Board has satisfied all of the conditions and complied with all of the agreements it is required to satisfy or comply with at or prior to the date of this Certificate.

6. I know of no pending or threatened litigation in any court which seeks to restrain or enjoin the issuance, sale or delivery of the Bonds or the collection of the revenues and assets of the State or the Department pledged or to be pledged to pay the principal of and interest on the Bonds; which in any way contests or affects the validity or enforceability of the Bonds, the Purchase Contract, the General Resolution, the Supplemental Resolution, or the pledges made in the General Resolution and the Supplemental

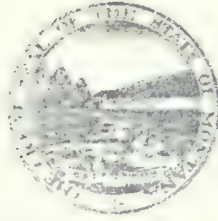
Resolution; which contests in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement; which affects the title of the Officials (as defined in the Purchase Contract) to their respective positions; or which contests the power of the Board with respect to the Bonds, the General Resolution, the Supplemental Resolution, or the Purchase Contract.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.



Ted Schwinden

SECRETARY OF STATE
STATE OF MONTANA



Jim Waltermire
Secretary of State

State Capitol
Helena, Montana 59620

CLOSING CERTIFICATE OF THE SECRETARY OF STATE
WITH RESPECT TO THE
STATE OF MONTANA COAL SEVERANCE TAX BONDS,
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM, 1984 SERIES A

I, Jim Waltermire, the duly elected, qualified and acting Secretary of State of the State of Montana (the "State") and a Member of the Board of Examiners of the State (the "Board") hereby certify as follows:

1. As of the date of this Certificate the General Resolution adopted by the Board on August 1, 1984 (the "General Resolution") is in full force and effect and has not been amended, modified or supplemented except by the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution").

2. As of the date of this Certificate the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984, (the "Supplemental Resolution") is in full force and effect and has not been amended, modified or supplemented.

3. As of the date of this Certificate, the Purchase Contract between the Board and certain underwriters (the "Purchasers") dated August 1, 1984 (the "Purchase Contract") is in full force and effect, has not been amended, modified

Certificate.

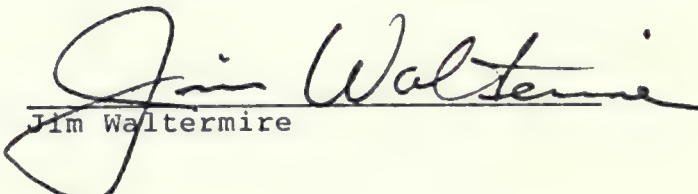
4. The Official Statement relating to the Bonds dated August 1, 1984, (the Official Statement") has not been amended, modified or supplemented except as may have been agreed to in writing by the Purchasers; is true in all material respects and does not omit any statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, to the best of my knowledge, no event affecting the State, the Board, or the Montana Department of Natural Resources and Conservation (the "Department") has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used, or which it is necessary to disclose in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any respect.

5. The Board has satisfied all of the conditions and complied with all of the agreements it is required to satisfy or comply with at or prior to the date of this Certificate.

6. I know of no pending or threatened litigation in any court which seeks to restrain or enjoin the issuance, sale or delivery of the Bonds or the collection of the revenues and assets of the State or the Department pledged or to be pledged to pay the principal of and interest on the Bonds; which in any way contests or affects the validity or enforceability of the Bonds, the Purchase Contract, the

General Resolution, the Supplemental Resolution, or the pledges made in the General Resolution and the Supplemental Resolution; which contests in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement; which affects the title of the Officials (as defined in the Purchase Contract) to their respective positions; or which contests the power of the Board with respect to the Bonds, the General Resolution, the Supplemental Resolution, or the Purchase Contract.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.


Jim Waltermire

STATE
OF
MONTANA
ATTORNEY GENERAL
MIKE GREELY

JUSTICE BUILDING, 215 N. SANDERS, HELENA, MONTANA 59620
TELEPHONE (406) 444-2026

CLOSING CERTIFICATE OF THE ATTORNEY GENERAL
WITH RESPECT TO THE
STATE OF MONTANA COAL SEVERANCE TAX BONDS,
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM, 1984 SERIES A

I, Mike Greely, the duly elected, qualified and acting Attorney General of the State of Montana (the "State") and a Member of the Board of Examiners of the State (the "Board") hereby certify as follows:

1. As of the date of this Certificate the General Resolution adopted by the Board on August 1, 1984 (the "General Resolution") is in full force and effect and has not been amended, modified or supplemented except by the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution").

2. As of the date of this Certificate the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984, (the "Supplemental Resolution") is in full force and effect and has not been amended, modified or supplemented.

3. As of the date of this Certificate, the Purchase Contract between the Board and certain underwriters (the "Purchasers") dated August 1, 1984 (the "Purchase Contract") is in full force and effect, has not been amended, modified or supplemented, and the representations, warranties and covenants made therein by the Board on behalf of the State are true, complete and correct in all material respects, and

shall have the same effect as if made on the date of this Certificate.

4. The Official Statement relating to the Bonds dated August 1, 1984, (the Official Statement") has not been amended, modified or supplemented except as may have been agreed to in writing by the Purchasers; is true in all material respects and does not omit any statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, to the best of my knowledge, no event affecting the State, the Board, or the Montana Department of Natural Resources and Conservation (the "Department") has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used, or which it is necessary to disclose in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any respect.

5. In my opinion the information contained in the Official Statement under the caption "Litigation" does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6. The Board has satisfied all of the conditions and complied with all of the agreements it is required to satisfy or comply with at or prior to the date of this Certificate.

7. Pursuant to Section 9(e)(8) of the Purchase Contract, I hereby certify that I know of no pending or threatened litigation in any court, except for the litigation described in the section of the Official Statement entitled "Litigation," which seeks to restrain or enjoin the issuance, sale or delivery of the Bonds or the collection of the revenues and assets of the State or the Department pledged or to be pledged to pay the principal of and interest on the Bonds; which in any way contests or affects the validity or enforceability of the Bonds, the Purchase Contract, the General Resolution, the Supplemental Resolution, or the pledges made in the General Resolution and the Supplemental Resolution; which contests in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement; which affects the title of the Officials (as defined in the Purchase Contract) to their respective positions; or which contests the power of the Board with respect to the Bonds, the General Resolution, the Supplemental Resolution, or the Purchase Contract,

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.


Mike Greely

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION



TED SCHWINDEN, GOVERNOR

32 SOUTHEWING

STATE OF MONTANA

(406) 449-3712

HELENA, MONTANA 59620

CLOSING CERTIFICATE
OF THE DIRECTOR OF THE DEPARTMENT OF
NATURAL RESOURCES AND CONSERVATION
WITH RESPECT TO THE
STATE OF MONTANA COAL SEVERANCE TAX BONDS,
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM, 1984 SERIES A

I, LEO BERRY, the duly appointed, qualified and acting Director of the Department of Natural Resources and Conservation (the "Department") of the State of Montana (the "State") hereby certify as follows:

1. Included in the transcript of the proceedings pertaining to the issuance and sale of the State of Montana Coal Severance Tax Bonds,, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, (the "Bonds") are full, true and correct copies of the following documents:

- (a) As Item 5, the Preliminary Official Statement dated July 24, 1984.
- (b) As Item 6, a letter from the Director of the Department recommending the issuance and sale of the Bonds, with a list of the projects for which the proceeds of the Bonds are expected to be used.
- (c) As Item 7, the General Resolution adopted by the Board on August 1, 1984 (the "General Resolution"). As of the date of this Certificate the General Resolution is in full force and effect and has not been amended, modified or supplemented except by the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984.
- (d) As Item 8, the 1984 Series A Supplemental Resolution adopted by the Board on August 1, 1984 (the "Supplemental Resolution"). As of the date of this Certificate the Supplemental Resolution is in full force and effect and has not been amended, modified or supplemented.
- (e) As Item 9, the Official Statement relating to the Bonds, dated August 1, 1984, (the


therein, in light of the circumstances under which they were made, not misleading; and, to the best of my knowledge, no event affecting the State, the Board or the Department has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purposes for which it is to be used, or which it is necessary to disclose in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any respect.

- (f) As Item 10, the Purchase Contract between the Board and certain underwriters (the "Purchasers"), dated August 1, 1984 (the "Purchase Contract"). At the time of the closing the Purchase Contract is in full force and effect, has not been amended, modified or supplemented, and the representations, warranties and covenants made therein by the Board on behalf of the State of Montana are true, complete and correct in all material respects, and shall have the same effect as if made on the date of this Certificate.

5. I know of no pending or threatened litigation in any court which seeks to restrain or enjoin the issuance, sale or delivery of the Bonds or the collection of the revenues and assets of the State or Department pledged or to be pledged to pay the principal of and interest on the Bonds; which in any way contests or affects the validity or enforceability of the Bonds, the General Resolution, the Supplemental Resolution, the pledges made in the General Resolution and the Supplemental Resolution, or the Purchase Contract; which contests in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement; which affects the title of the Officials (as defined in the Purchase Contract) to their respective positions; or which contests the powers of the Board with

respect to the Bonds, the General Resolution, the Supplemental Resolution, or the Purchase Contract.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.



Leo Berry

CERTIFICATE OF THE TREASURER
WITH RESPECT TO SECTIONS 2.15 and 6.05
OF THE GENERAL RESOLUTION

I, MORRIS BRUSETT, the duly qualified and acting Treasurer of the State of Montana, DO HEREBY CERTIFY as follows:

1. Section 6.05 of the State of Montana Coal Severance Tax Bond General Resolution (the "General Resolution") adopted by the Board of Examiners on August 1, 1984 provides as follows:

The Board agrees that the State shall not issue any additional Bonds secured by or payable from Pledged Tax Revenues other than Bonds equally and ratably secured by such Pledged Tax Revenues and Bonds with a junior or inferior lien on such Pledged Tax Revenues, and will issue such additional Bonds only if during the three fiscal years preceding the issuance of such additional Bonds the average amount of Coal Severance Tax Revenues received annually by the State and deposited into the Coal Severance Tax Trust Fund is at least twice the maximum annual Debt Service on such additional Bonds and all Outstanding Bonds.

2. During the three fiscal years preceding the date of this certificate the State has deposited the following amounts of coal severance tax revenues into the Coal Severance Tax Trust Fund created pursuant to Article IX, Section 5 of the Montana Constitution and MCA Section 15-35-108(1):

<u>Fiscal Year</u>	<u>Deposits to the Coal Severance Tax Trust Fund</u>
1981-82	\$ 43,093,423
1982-83	40,022,491
1983-84	41,411,748

3. During the three fiscal years preceding the date of this certificate the average amount of coal severance tax revenues deposited into the Coal Severance Tax Trust Fund was \$41,509,220.66

4. The State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") being issued on the date of this certificate are the first series of bonds to be issued pursuant to MCA Section 17-5-701 through 17-5-719 and the General Resolution.

5. The maximum amount of Debt Service (as defined in the General Resolution) to be due on the Bonds in any future fiscal year is \$1,195,467.

6. The average amount of coal severance tax revenues deposited into the Coal Severance Tax Trust Fund during the three fiscal years preceding the date of this certificate is more than two times the maximum debt service due on the Bonds in any future fiscal year.

7. Section 1.03 of the General Resolution states that "'Debt Service Reserve Requirement' means, as of any date of calculation, an amount equal to the maximum annual Debt Service due on the Outstanding Bonds during that or any subsequent calendar year."

8. The maximum annual debt service due on the 1984 Series A Bonds during this or any subsequent calendar year is \$1,205,625.

9. The total amount deposited into the Debt Service Reserve Account on the date of this certificate is \$1,205,625, which amount consists of \$602,812 of 1984 Series A Bond Proceeds and \$602,813 transferred from the Trust Fund Bond Account.

10. Upon the issuance of the 1984 Series A Bonds, no Event of Default under the General Resolution, and no event which with notice or lapse of time or both would become an Event of Default under the General Resolution, has occurred and is continuing.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.


Morris Brusett

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032

HELENA, MONTANA 59620

August 16, 1984

Board of Examiners
State of Montana
Room 155, Sam W. Mitchell Bldg.
Capitol Station
Helena, Montana 59620

Re: \$10,485,000 State of Montana Coal Severance
Tax Bonds, Department of Natural Resources
and Conservation Water Development Program,
1984 Series A

Dear Sirs:

I have reviewed the General Resolution and the 1984 Series A Supplemental Resolution as adopted by the Board of Examiners on August 1, 1984, relating to the issuance of the above described bonds (the "Bonds") and expressing certain contractual undertakings for the benefit of the holders of such Bonds under authority of Montana Code Annotated Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (referred to hereinafter as the "Enabling Act"). The General Resolution generally authorizes and directs the State Treasurer to do the following:

- (1) to act as paying agent with respect to the Bonds;
- (2) to establish the accounts referred to in Section 5.03 of the General Resolution within the State Treasury Fund Structure specified by MCA Section 17-2-102;
- (3) to provide for disbursement of the proceeds of the Bonds in accordance with Section 5.05 of the General Resolution;
- (4) to deposit fifty percent of the revenues of the coal severance tax levied by MCA Section 15-35-101 et seq. into the Trust Fund Bond Account in the Coal Severance Tax Trust Fund as required by Article IX, Section 5 of the Montana Constitution, MCA Sections 15-35-108 and 17-5-703(1)(a), and Section 5.04 of the General Resolution, and to apply the amounts in the Trust Fund Bond Account to

Montana Laws Chapter 705, and Section 5.06 of the General Resolution, and to apply the amounts in such account to the payment of debt service on the Bonds as required by Section 5.06 of the General Resolution.

(6) to determine the amount of the Debt Service Reserve Requirement, and to maintain the Debt Service Reserve Account in accordance with Section 5.08 of the General Resolution.

(7) to maintain books and records for the accounts established by the General Resolution in accordance with Section 6.06 of the General Resolution.

This will confirm that I will establish the accounts and perform the duties and responsibilities of the State Treasurer as set forth in the General Resolution and the 1984 Series A Supplemental Resolution consistently with my general fiscal duties as State Treasurer as set forth in MCA Section 17-1-111.

Very truly yours,

A handwritten signature in cursive script, reading "Morris Brusett".

Morris Brusett



Norwest Bank Minneapolis, N. A.
Eighth Street and Marquette Avenue
Minneapolis, Minnesota 55479
612/372 8123

August 16, 1984

Montana Board of Examiners
Montana Department of Administration
Sam W. Mitchell Building , Room 155
Capitol Station
Helena, Montana 59620

RECEIVED

AUG 14 1984

CITIZEN & MULLENDORE

RE: State of Montana Coal Severance Tax Bonds,
Department of Natural Resources and Conservation
Water Development Program, 1984 Series A

Gentlemen:

We hereby formally accept our appointment by the Board of Examiners as Bond Registrar and Paying Agent for the issue of bonds named above, and agree to perform the duties and obligations imposed on a holder of these positions by the General Resolution dated August 1, 1984, and the Supplemental Resolution dated August 1, 1984.

Very truly yours,

NORWEST BANK MINNEAPOLIS, N.A.

By:

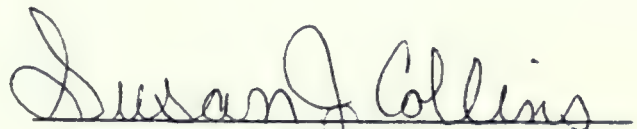
Dawn Matlock
Dawn Matlock
Account Administrator
Paying Agent Services

AUTHENTICATION AND INCUMBENCY CERTIFICATE

The undersigned Officer of Norwest Bank Minneapolis, N.A. (the "Bond Registrar"), Bond Registrar under a General Resolution dated August 1, 1984 and a Supplemental Resolution Dated August 1, 1984 (the "Resolution") of the Montana Board of Examiners, with respect to the State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, hereby certifies as follows:

1. The Bond Registrar has authenticated \$10,485,000 principal amount of State of Montana Coal Severance Tax bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, represented by 1044 bonds.
2. The Bonds have been authenticated in the name and on behalf of the Bond Registrar by : DAWN MATLOCK as an Authorized Signer of the Bond Registrar.
3. Attached hereto is a copy of a resolution of the Board of Directors respecting signing powers of officers and others and relating to the authority of certain officers of the Bond Registrar to Authenticate bonds. Such provisions are in full force and effect and confer full power and authority upon the authorized signer named above to authenticate bonds in the name and on behalf of the Bond Registrar.
4. The undersigned is familiar with the signature of the authorized signer of the Bond Registrar named above, and the signature of such authorized signer appearing on the Bonds is their genuine signature.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the corporate seal of Norwest Bank Minneapolis, N.A., this 16th day of August, 1984.


Operations Officer

Norwest Bank Minneapolis, N.A.
8th Street and Marquette Avenue
Minneapolis, Minnesota

Certified Copy of By-Law 31 and General Signature Resolution Relating to Execution of Written Instruments

By-Law 31 Norwest Bank Minneapolis, National Association

Instruments, documents, or agreements relating to or affecting the property or business and affairs of this Association, or of this Association when acting in a representative or fiduciary capacity, shall be executed, acknowledged, verified, delivered, or accepted in behalf of this Association in such manner and by such officers, employees, or employees as the Board of Directors may from time to time direct or, if authorized by the Board of Directors, by such officers, employees, or employees as may be designated from time to time by the Chairman of the Board of Directors or the President together with the President.

A SIGNATURE RESOLUTION

BEFORE THAT, Instruments, documents, or agreements relating to or affecting the property or business and affairs of this Association, or of this Association when acting in any representative or fiduciary capacity, may be executed in its name, with or without its corporate seal, by the persons hereinafter designated. For the purposes of this resolution, the terms "Senior Officer" and "Signing Officer" are defined as follows:

"Senior Officer" shall mean the Chairman of the Board and Chief Executive Officer, the President, Vice Chairman and Chairman of the Trust Committee, any Assistant Vice President (including any Executive Vice President or any Senior Vice President), the Cashier, the Secretary, and the Controller.

"Signing Officer" shall mean any Senior Officer, any Assistant Vice President, Assistant Cashier, Assistant Secretary, Assistant Controller, Trust Officer or any other officer (including in either case Probate, Trust Investment, Pension Trust, Tax, Trust Operations, and Corporate Trust Officers), Commercial Banking Officer, Correspondent Banking Officer, Data Processing Officer, Personal Banking Officer, National Accounts Officer, Commercial Marketing Officer, Advertising Director, Public Relations Director, Installment Banking Officer, Investment Officer, Real Estate Officer, Stenographic Officer, Service Operations Officer, Auditing Officer, Work Standards Officer, Planning Officer, Systems Officer, Computer Services Officer, Operations Officer, Personnel Officer, or any other functional title hereafter designated by the Board of Directors as an officer of the Association.

Any Senior Officers or any Senior Officer and any other Signing Officer, acting together, may execute:

Leases, assignments and conveyances of any real or personal property, or any interest therein.

Indemnity or other undertakings and guaranties.

Any other instruments, documents or agreements which may be found necessary, proper or expedient to be executed in conducting the business of the Association.

Any Senior Officer, acting alone, may execute:

Assignments of mortgages, releases or satisfactions of mortgages, certificates of redemption, assignments of sheriff's certificates, trust deeds, declarations of trust, powers of attorney, assignments of stocks, bonds or other securities.

Participation agreements, letters of credit, participation agreements and certificates of participation.

Any Signing Officer, acting alone, may execute:

Participation agreements, financing statements, termination statements, continuation statements, and statements of assignment with respect to which this Association is a secured party, releases of security interests in and liens upon personal property.

Payments for any money or property paid or delivered to this Association.

Notices, notices of acceleration, or extensions of the time for payment of any note or other obligation held by this Association.

Notices of default and of election to sell or cause to be sold the property described in any mortgage or deed of trust held by this Association, notices to trustees named in any such deed of trust, and do any other act or sign any other document provided for by law, or which may be necessary, expedient or proper in order to protect or enforce the rights of this Association under any such mortgage or deed of trust.

Checks, drafts, cashiers checks, money orders, certificates of deposit, savings certificates and other similar obligations of this Association, except that any instrument of credit issued and acceptances executed by this Association shall require the signature of one Senior Officer or of any two Signing Officers of this Association.

Endorsements of checks of customers.

Endorsements and related instruments.

Endorsements of the signatures of customers, or other signatures, whether appearing as endorsements of bonds, certificates of stock, other securities, or otherwise.

Any instrument of this Association as a creditor of any decedent, or of a person who is a party to any form of proceeding in bankruptcy, receivership, insolvency or similar proceeding, or any other claim of this Association in any other type of action or proceeding.

Any instrument to vote stock held by this Association.

Any instrument, petitions, accounts, and other documents to be filed in any court or other proceeding involving this Association, including verifications thereof.

Any instrument of "Incorporated Company" required by 46 U.S.C.A. 838 or any similar statute, and other documents in favor of or affecting this Bank or Association.

Any instrument with the recording of preferred mortgages.

Any instrument, declarations of trust and trust agreements.

Any instrument, petitions for the appointment or removal of officers.

Any instrument held in any account of this Association.

Any instrument, corporate mortgages, trust agreements.

Any instrument, by which this Association is designated as depository.

Any instrument, on behalf of this Association.

Any instrument, signatures of this Association.

Any instrument, ratifications of records and instruments.

Any instrument, by which Presidents of this Association.

Any instrument, documents, or agreements.

Any instrument, written authorization.

IT IS HEREBY RESOLVED

That heretofore

the Association

of Minneapolis

has

passed

the

above

described

in

the

above

described

IN WITNESS WHEREOF I have hereunto set my hand and the seal of this Association this 15th day of June, 1971.

NI 4762 (5-67)



Law No. 31 Norwest Bank Minneapolis, National Association

All instruments, documents, or agreements relating to or affecting the property or business and affairs of this Association, or of this Association when acting in any representative or fiduciary capacity, shall be executed, acknowledged, verified, delivered, or accepted in behalf of this Association in such manner and by such officer, officers, employee, or employees, as the Board of Directors may from time to time direct or, if authorized by the Board of Directors, by such officer, officers, employee, or employees as may be designated from time to time by the Chairman of the Board of Directors or the President together with a Vice President.

GENERAL SIGNATURE RESOLUTION

RESOLVED THAT, Instruments, documents, or agreements relating to or affecting the property or business and affairs of this Association, or of this Association when acting in any representative or fiduciary capacity, may be executed in its name, with or without its corporate seal, by the persons hereinafter designated. For the purposes of this resolution, the terms "Senior Officer" and "Signing Officer" are defined as follows:

"Senior Officer" shall mean the Chairman of the Board and Chief Executive Officer, the President, Vice Chairman and Chairman of the Trust Committee, any Vice President (including any Executive Vice President or any Senior Vice President), the Cashier, the Secretary, and the Controller.

"Signing Officer" shall mean any Senior Officer, any Assistant Vice President, Assistant Cashier, Assistant Secretary, Assistant Controller, Trust Officer or Assistant Trust Officer (including in either case Probate, Trust Investment, Pension Trust, Tax, Trust Operations, and Corporate Trust Officers), Commercial Banking Officer, Correspondent Banking Officer, Data Processing Officer, Personal Banking Officer, National Accounts Officer, Commercial Marketing Officer, International Banking Officer, Advertising Director, Public Relations Director, Installment Banking Officer, Investment Officer, Real Estate Officer, Stenographic Services Officer, Service Operations Officer, Auditing Officer, Work Standards officer, Planning Officer, Systems Officer, Computer Services Officer, Operations Officer, Personnel Officer, or any other functional title hereafter designated by the Board of Directors as an officer of the Association.

Any two Senior Officers or any Senior Officer and any other Signing Officer, acting together, may execute:

- a. Deeds, leases, assignments and conveyances of any real or personal property, or any interest therein.
- b. Bonds of indemnity or other undertakings and guaranties.
- c. Any other instruments, documents or agreements which may be found necessary, proper or expedient to be executed in conducting the business of the Bank.

Any Senior Officer, acting alone, may execute:

- a. Assignments of mortgages, releases or satisfactions of mortgages, certificates of redemption, assignments of sheriff's certificates, trust deeds, declarations of trust, powers of attorney, assignments of stocks, bonds or other securities.
- b. Loan agreements, letters of credit, participation agreements and certificates of participation.

Any Signing Officer, acting alone, may execute:


- a. Security agreements, financing statements, termination statements, continuation statements, and statements of assignment with respect to which this Association is a secured party, releases of security interests in and liens upon personal property.
- b. Receipts for any money or property paid or delivered to this Association.
- c. Demands, notices of acceleration, or extensions of the time for payment of any note or other obligation held by this Association.
- d. Notices of default and of election to sell or cause to be sold the property described in any mortgage or deed of trust held by this Association, notices to the trustee named in any such deed of trust, and do any other act or sign any other document provided for by law, or which may be necessary, expedient or proper in order to protect or enforce the rights of this Association under any such mortgage or deed of trust.
- e. Checks, drafts, cashiers checks, money orders, certificates of deposit, savings certificates and other similar obligations of this Association, except that letters of credit issued and acceptances executed by this Association shall require the signature of one Senior Officer or of any two Signing Officers of the Association.
- f. Certifications of checks of customers.
- g. Tax returns and related instruments.
- h. Guaranties of the signatures of customers, or other signatures, whether appearing as endorsements of bonds, certificates of stock, other securities, or otherwise.
- i. Claims of this Association as a creditor of any decedent, or of a person who is a party to any form of proceeding in bankruptcy, receivership, insolvency or similar proceeding, or any other claim of this Association in any other type of action or proceeding.
- j. Proxies to vote stock held by this Association.
- k. Pleadings, petitions, accounts, and other documents to be filed in any court or other proceeding involving this Association, including verifications thereof.
- l. The "Oath of Officer of Incorporated Company" required by 46 U.S.C.A. 838 or any similar statute, and other documents in favor of or affecting this Bank in connection with the recording of preferred mortgages.
- m. Trust indentures, declarations of trust and trust and agency agreements, acceptances thereof and consents thereto, and any similar documents however denominated; petitions for the appointment or the confirmation of appointment, of this Association in any representative or fiduciary capacity; certificates of assets held in any account of this Association; certificates of authentication with respect to bonds, notes, debentures, and other obligations issued under corporate mortgages, trust agreements and other indentures; certificates for securities deposited, interim certificates and other certificates for and on behalf of this Association as depository or agent; countersignatures of bonds, notes, certificates of stock, voting trust certificates or participation certificates on behalf of this Association as transfer agent or registrar; certificates of cancellation and of cremation of stocks, bonds or other securities; and resignations of this Association in any representative or fiduciary capacity.
- n. Certifications of records and incumbency, confirmations of status and balances, acknowledgments and affidavits.

Any two Vice Presidents of this Association may designate certain Signing Officers or non-officer employees as agents ("Designated Signers") to execute any of the instruments, documents or agreements listed in paragraphs 2(a) and (b) and 3(a) through (n) of this resolution, or may revoke such designation, by filing a written authorization with the Controller of this Association.

FURTHER RESOLVED, that all signing resolutions authorizing officers or others to sign any instruments, documents, or agreements for or on behalf of this Association, heretofore adopted by the Board of Directors, which are inconsistent or in conflict with the foregoing resolutions, be and they hereby are rescinded.

SUSAN J. COLLINS do hereby certify that I am an Assistant Secretary of Norwest Bank Minneapolis, National Association, a Banking Association organized pursuant to the National Bank Act of the United States of America, having an office and place of business in Minneapolis, Minnesota; that the foregoing is a true, complete and correct copy of By-Law 31 of said Association and general Signature Resolution adopted April 18, 1968, and amended April 17, 1975 and February 18, 1982, by the Board of Directors of said Association relating to the execution of written instruments, and that the same now are in full force and effect and have not been revoked, repealed or further amended.

I further certify that on April 4, 1984, the following named persons were officers or Designated Signers of said Norwest Bank Minneapolis, National Association, that their respective titles as such officers or Designated Employees and their true signatures appear beside their names, and that on said date were duly authorized to execute instruments in accordance with the terms of said By-Law and said Resolution.

Name	Title	Signature
DAWN MATLOCK	AUTHORIZED SIGNER	

WITNESS WHEREOF I have hereunto set my hand and affixed the corporate seal of said Association this 16 day of August 1984



CERTIFICATE AS TO ARBITRAGE

I, Leo Berry, being the duly qualified and acting Director of the Department of Natural Resources and Conservation of the State of Montana and being authorized by the Board of Examiners of the State in a resolution adopted on August 1, 1984, entitled "State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A" (the "Supplemental Resolution") to issue a certification as to the reasonable expectations of the State regarding the use of proceeds of the issuance and sale by the State of \$10,485,000 State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") issued under a General Resolution adopted by the Board on August 1, 1984 (the "General Resolution") and related matters, do hereby certify as follows:

ARTICLE I

GENERAL

Section 1.01. I, among others, am responsible for the issuance of the Bonds. This certificate is intended to be, and may be relied upon as, a certification described in Treasury Regulation Section 1.103-13(a)(2)(ii) under Section 103(c) of the Internal Revenue Code of 1954, as amended (the "Code"), and is delivered as a part of the transcript of proceedings and accompanying certificates with respect to the Bonds.

Section 1.02. The State has not been listed by the Commissioner of Internal Revenue as an issuer whose certification may not be relied upon by holders of its obligations, nor has the State been advised that the Commissioner of Internal Revenue is contemplating any such listing of it.

Section 1.03. I have investigated the facts, estimates and circumstances surrounding the issuance of the Bonds, which are set forth in summary terms in this Certificate. To the best of my knowledge and belief, such facts, estimates and circumstances are true, correct and complete and the State's expectations as to future events, which are based thereon, are in all respects reasonable. To the extent that the expectations of the State are based upon estimates or representations made by others, including the Project Sponsors and the underwriters (as those terms are defined herein), I have examined such estimates and

representations and consider them to be reasonable and correct. Any statements in this Certificate involving future events, whether or not expressly so stated, are intended as expectations of the State and not as representations of fact. On the basis of such facts, estimates and circumstances, it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be considered arbitrage bonds within the meaning of Section 103(c) of the Code.

SECTION 1.04. There are no governmental obligations (i) which have been or will be issued at substantially the same time as the Bonds, (ii) which have been or will be sold pursuant to a common plan of financing as the Bonds, and (iii) which will be paid out of substantially the same source of funds (or will have substantially the same claim to be paid out of substantially the same source of funds) as the Bonds or which will be used to pay the Bonds.

ARTICLE II

THE LOANS

Section 2.01. (a) The Bonds are being issued to provide funds with which to make loans (the "Loans") to various local government entities, political subdivisions and water users' associations in the State (the "Project Sponsors") in order to finance portions of various water development projects (the "Projects"). Each of the Loans, with the exception of the Martinsdale Project Loan and the possible exception of the Pondera Soil Conservation District Loan, is an obligation described in Section 103(a)(1) of the Code and is not an obligation as that term is used in Section 1.103-13(b)(4) of the regulations issued under Section 103(c) of the Code.

(b) The Project Sponsors and their respective Loans are identified in Appendix A. The total estimated principal amount of the Loans to be made from Bond proceeds is \$9,558,445. The amount of each Loan is less than or equal to the total cost of the respective project.

Section 2.02. On the basis set forth in Section 1.03 of this certificate, it is reasonably expected that:

(i) The State will loan, within six months after the date of issue of the Bonds, an aggregate amount in excess of \$100,000 to the Project Sponsors.

(ii) The Project Sponsors will expend, within six months after the date of issue of the Bonds, an aggregate amount in excess of \$100,000 for acquisition or construction of the Projects.

(iii) Within six months after the date of issue of the Bonds, the State will enter into a contract with each Project Sponsor whereby the State will loan or incur a binding obligation to loan, and the Project Sponsor will borrow or incur a binding obligation to borrow, the amount shown in Appendix A, which in each case is in excess of \$100,000.

(iv) Within three years after the date of issue of the Bonds, the State will loan an amount not less than \$9,558,445 to the Project Sponsors, which amount is in excess of \$7,336,139 (the latter amount being equal to 85 percent of the spendable proceeds of the Bonds).

(v) Within three years after the date of issue of the Bonds, each Project Sponsor will expend an amount equal to or in excess of its loan on the acquisition or construction of its Project.

(vi) The State will proceed with due diligence to make the Loans, and the Project Sponsors will proceed with due diligence to expend the Loan proceeds for the acquisition or construction of the Projects.

Section 2.03. The State legislature has authorized loans for water development projects to be made to local governmental entities other than those listed in Appendix A, and it may authorize additional loans to other governmental entities in the future. The State expects that any such loans will be made with the proceeds of subsequent State bond issues. However, under the General Resolution, such other loans can be made with the proceeds of these Bonds. If it later appears, contrary to the State's expectations, that any Loan listed in Appendix A will not be made, the amount of Bond proceeds available for such Loan will be loaned instead to another authorized local governmental entity.

ARTICLE III

THE BONDS

Section 3.01. The Bonds are being issued in the aggregate principal amount of \$10,485,000, are dated August 1, 1984, are issued in the form of fully registered bonds in denominations of \$5,000 each or any integral multiple

thereof, will mature on December 1 in the years and amounts shown below, and will bear interest at the rates shown below:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985	\$ 190,000	6 3/4%
1986	205,000	7.20
1987	220,000	7.40
1988	235,000	7.70
1989	255,000	8.00
1990	275,000	8 1/4
1991	300,000	8 1/2
1992	325,000	8 3/4
1993	350,000	9.00
1994	385,000	9.20
1995	420,000	9.40
1996	460,000	9 1/2
1999	1,660,000	10 1/8
2005	5,205,000	10 1/4

Section 3.02. The Bonds maturing on December 1, 1999 and December 1, 2005, will be redeemed prior to their maturity by sinking fund installments on the dates and in the principal amounts set forth below:

Term Bonds due December 1, 1999

Term Bonds due December 1, 2005

<u>December 1</u>	<u>Sinking Fund Installments</u>	<u>December 1</u>	<u>Sinking Fund Installments</u>
1997	\$ 500,000	2000	\$ 670,000
1998	550,000	2001	740,000
1999*	610,000	2002	815,000
		2003	900,000
		2004	990,000
		2005*	1,090,000

* Final Maturity

ARTICLE IV

ACCOUNTS AND FLOW OF FUNDS

Section 4.01. The following accounts have been established pursuant to State Law, the General Resolution and

the Supplemental Resolution as part of the State treasury fund structure:

- (a) The Trust Fund Bond Account;
- (b) The Trust Fund Permanent Account;
- (c) the Trust Fund Income Account;
- (d) The Debt Service Reserve Account;
- (e) The Surplus Project Revenue Account;
- (f) The 1984 Series A Debt Service Account; and
- (g) The 1984 Series A Bond Proceeds Account.

Section 4.02. (a) Except for the amounts received on delivery of the Bonds as accrued interest (which amounts are to be deposited into the 1984 Series A Debt Service Account) and the amounts deposited into the Debt Service Reserve Account, all proceeds of the Bonds are to be deposited into the 1984 Series A Bond Proceeds Account. The amounts in the 1984 Series A Bond Proceeds Account are to be used to pay costs of issuance and to make the Loans.

(b) All investment income earned on the 1984 Series A Bond Proceeds Account will be transferred to the 1984 Series A Debt Service Account.

Section 4.03. (a) The State Treasurer is required to deposit fifty percent of the revenues from the State's coal severance tax into the Trust Fund Bond Account as such revenues are received. Such revenues (the "Pledged Tax Revenues") are pledged for payment of debt service on all bonds issued under the General Resolution and for maintenance of the Debt Service Reserve Account for so long as they remain in the Trust Fund Bond Account. Investment income earned on the amounts in the Trust Fund Bond Account will be transferred, as such income is received, to the Trust Fund Income Account and the Trust Fund Permanent Account, which accounts are not pledged for payment of the Bonds.

(b) The State Treasurer is required to deposit all payments of principal, interest and penalties made by Project Sponsors to the State with respect to the Loans (the "1984 Series A Pledged Project Revenues") into the 1984 Series A Debt Service Account. Accrued interest on the Bonds and interest earned on Bond proceeds also will be deposited into

the 1984 Series A Debt Service Account. The amounts in the 1984 Series A Debt Service Account, together with the investment income earned on such amounts, are pledged for payment of debt service on the Bonds.

(c) The General Resolution permits revenues from projects financed under the General Resolution to be deposited into the Surplus Project Revenue Account when required by a supplemental resolution, but as of the date of this certificate no supplemental resolution requires amounts to be deposited into the Surplus Project Revenue Account. Any amounts which may in the future be placed in the Surplus Project Revenue Account, together with the investment income earned on such amounts, will be pledged and available for payment of debt service on all bonds issued under the General Resolution.

Section 4.04. (a) The State has agreed to maintain in the Debt Service Reserve Account an amount equal to the maximum amount of debt service due in any calendar year on all bonds outstanding under the General Resolution. The debt service reserve requirement was adopted by the State upon consultation with Evenson-Dodge, Inc., the State's financial advisor, and The First Boston Corporation, as a representative of the underwriters. This requirement was necessary, in the judgment of the financial advisor and the underwriters, to obtain a favorable rating on the Bonds and to enable the underwriters to market such Bonds successfully. The amounts in the Debt Service Reserve Account are pledged and available for payment of all bonds issued under the General Resolution.

(b) Fifty percent of the amount deposited in the Debt Service Reserve Account on the date of issue of the Bonds consists of proceeds of the Bonds, and the other fifty percent of such amount consists of Pledged Tax Revenues transferred to the Debt Service Reserve Account from the Trust Fund Bond Account. The ratio between the amount of Pledged Tax Revenues in the Debt Service Reserve Account and the amount of 1984 Series A Bond Proceeds in the Debt Service Reserve Account will change from time to time after the date of issue of the Bonds as provided in the General Resolution and the Supplemental Resolution.

(c) Investment income earned on Pledged Tax Revenues in the Debt Service Reserve Account will be transferred to the Trust Fund Income Account as such income is received, and investment income earned on 1984 Series A Bond Proceeds in the Debt Service Reserve Account will be transferred to the 1984 Series A Debt Service Account as such income is received.

Section 4.05. (a) On each bond payment date the Treasurer will draw upon the amounts in the following accounts, in the following order, in order to pay the debt service due on the Bonds:

(i) First, the 1984 Series A Pledged Project Revenues and the other amounts in the 1984 Series A Debt Service Account;

(ii) Second, the amounts, if any, in the Surplus Project Revenue Account;

(iii) Third, the Pledged Tax Revenues in the Trust Fund Bond Account;

(iv) Fourth, the amounts in the Debt Service Reserve Account; and

(v) Fifth, the Bond proceeds in the 1984 Series A Bond Proceeds Account.

(b) It is anticipated that the 1984 Series A Pledged Project Revenues will be insufficient to pay the debt service due on the Bonds, and that the balance of the debt service due on the Bonds will be paid with Pledged Tax Revenues.

Section 4.06. Except to the extent indicated above, the State has established no funds or accounts, nor does the State expect to establish any other funds and accounts which may be used to pay debt service on the Bonds or which may be pledged as collateral for the Bonds.

ARTICLE V

APPLICATION OF BOND PROCEEDS

Section 5.01. The initial offering price of the Bonds to the public is \$10,458,975 (being the \$10,485,000 par value of the Bonds, less original issue discount on the Bonds maturing in 2005 of \$26,025). Based on the past financing practices and experience of the State and on consultations with Evensen Dodge, Inc., the State's financial advisor, and The First Boston Corporation (acting as the representative of the underwriters of the Bonds), the State believes that such price is reasonable under customary standards applicable in the established tax exempt bond market.

Section 5.02. The proceeds from the sale of the Bonds are \$10,248,712.34 (which is the aggregate face amount of \$10,485,000, minus original issue discount of \$26,025 and underwriters' discount of \$252,374, plus accrued interest for the period from August 1, 1984, to August 16, 1984 (15 days) of \$42,111.34). Except as set forth in Section 5.03, it is expected that the proceeds of the Bonds will be used as follows:

For deposit in the 1984 Series A Bond Proceeds Account to be used to make the Loans	\$9,558,445.00
For deposit in the 1984 Series A Bond Proceeds Account to pay the costs of issuance of the Bonds	45,344.00
For deposit in the Debt Service Reserve Account	602,812.00
For deposit in the 1984 Series A Debt Service Account to pay accrued interest	42,111.34

Section 5.03. The costs of issuing the Bonds, estimated to be \$45,344, will be paid from the 1984 Series A Bond Proceeds Account or, if the amounts on deposit in the 1984 Series A Bond Proceeds Account for payment of such costs are insufficient, from any available funds of the State.

ARTICLE VI

YIELD

Section 6.01. When used in this Certificate the term "yield" refers to yield computed by the actuarial method using a 360-day year and semi-annual compounding, and means that discount rate which when used in computing the present worth of all payments of principal and interest to be paid on an obligation, produces an amount equal to the purchase price thereof.

Section 6.02. As shown in Appendix B annexed hereto, the yield on the Bonds is more than 10.2596 percent. In the computation of yield, the purchase price of the Bonds is the \$10,458,975 initial offering price specified in section 5.01 plus accrued interest of \$42,111.34 and less underwriter's discount of \$252,374 and the costs of issuing the bonds of \$45,344.

Section 6.03. The yield on the Loan obligations which will be acquired with the proceeds of the Bonds will be, in the case of each Loan, less than or equal to the yield on the Bonds. The aggregate yield on the Loans will be less than or equal to the yield on the Bonds.

ARTICLE VII

GOVERNMENTAL PURPOSES

Section 7.01. The original proceeds of the Bonds (\$10,203,368, which is the net amount received by the State as a result of the sale of the Bonds after payment of the expenses of issuing the Bonds) will not exceed the amount necessary for the governmental purposes of the issue, which purposes include making the Loans, partially funding the Debt Service Reserve Account, and paying interest accrued on the Bonds to the date of issuance. No portion of the Bonds is issued solely for the purpose of investing the proceeds at a materially higher yield than the yield on the Bonds.

Section 7.02. In connection with the issuance of the Bonds, except as specifically provided in Section 103(c)(4) of the Code, the State has not engaged and will not engage in any transaction or series of transactions (i) enabling the State or any Project Sponsor to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, and (ii) increasing the burdens on the market for tax-exempt obligations in any manner including, without limitation, by selling bonds that would not otherwise be sold, or by selling more bonds, or issuing them sooner, or allowing them to remain outstanding longer, than would otherwise be necessary.

ARTICLE VIII

INVESTMENTS AND INVESTMENT RESTRICTIONS

Section 8.01. Of the amount deposited in the 1984 Series A Bond Proceeds Account to make the Loans, it is reasonably expected that 100% of such amount will be so expended for such purposes on or before August 16, 1987. It is also reasonably expected that the amount deposited in the 1984 Series A Bond Proceeds Account to pay the costs of issuing the Bonds will be expended for such purposes on or before August 16, 1987. Until so used, such funds deposited in the 1984 Series A Bond Proceeds Account will be invested without restriction as to yield.

Section 8.02. The \$45,344 deposited in the 1984 Series A Debt Service Account to pay accrued interest on the Bonds will be so expended on December 1, 1984, and until that time will be invested without restriction as to yield.

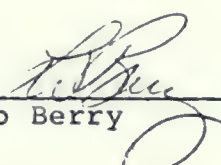
Section 8.03. All payments of Pledged Tax Revenues into the Trust Fund Bond Account, all payments of 1984 Series A Pledged Project Revenues into the 1984 Series A Debt Service Account, and all payments of amounts into the Surplus Project Revenue Account will be used to achieve a proper matching of revenues and debt service within each bond year. While the Bonds are outstanding (i) payments on the Bonds with funds from the 1984 Series A Debt Service Account, the Surplus Project Revenue Account and the Trust Fund Bond Account are expected to be made within 12 months of the deposit of such funds into such accounts, and (ii) the Trust Fund Bond Account, the Surplus Project Revenue Account, and the 1984 Series A Debt Service Account will be depleted at least once a year except for an amount not to exceed 1/12 of the next year's debt service on the Bonds. Funds deposited in the Trust Fund Bond Account, the Surplus Project Revenue Account and the 1984 Series A Debt Service Account will be invested without restriction as to yield.

Section 8.04. The amount to be deposited into the Debt Service Reserve Account (\$1,205,625) is less than \$1,530,505, which latter amount is equal to 15 percent of the original proceeds of the Bonds (\$10,203,368). The funds held in the Debt Service Reserve Account will be invested without restriction as to yield.

Section 8.05. (a) The moneys held in the 1984 Series A Debt Service Account resulting from the investment of amounts held in the 1984 Series A Debt Service Account, the 1984 Series A Bond Proceeds Account and the Debt Service Reserve Account will be invested without restriction as to yield for a period not exceeding one year from the date such moneys are received.

(b) The moneys, if any, held in the Surplus Project Revenue Account resulting from the investment of the amounts in such account will be invested without restriction as to yield for a period not exceeding one year from the date such moneys are received.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th day of August, 1984.



Leo Berry

APPENDIX A

LOANS TO BE MADE WITH THE PROCEEDS OF THE 1984 SERIES A BONDS

<u>Project Sponsor</u>	<u>Estimated Total Project Cost</u>	<u>Loan Amount</u>	<u>Interest Rate and Loan Term</u>
Belgrade, City of	\$ 940,000	\$ 940,000	7% for five years and 10.2596% for balance of 20 year term
Big Fork County Water and Sewer District	2,400,000	250,000	7% for five years and 10.2596% for balance of 20 year term
Bitterroot Irrigation District	2,360,000	1,180,000	3% for 30 year term
Columbia Falls, City of	236,000	200,000	7% for five years and 10.2596% for balance of 20 year term
Conrad, City of	309,000	250,000	7% for five years and 10.2596% for balance of 20 year term
Culbertson, Town of	1,092,000	704,000	5% for 20 year term
East Bench Irrigation District	4,942,000	1,250,000	3% for 30 year term

Ennis, City of	644,010	180,000	7% for five years and 10.2596% for balance of 20 year term
Geraldine County Water District	1,988,580	1,733,200	6.5% for 20 year term
Libby, City of	688,984	590,500	7% for five years and 10.2596% for balance of 20 year term
Martinsdale Project	307,000	250,000	10.2596% for 20 year term
Pondera Soil Conservation District	1,763,200	555,000	6% for 20 year term
Power-Teton County Water and Sewer District	843,364	121,370	7% for five years and 10.2596% for balance of 20 year term
Sage Creek County Water District	580,000	623,000	7% for five years and 10.2596% for balance of 20 year term
Shelby, City of	1,305,000	592,000	7% for five years and 10.2596% for balance of 20 year term
Three Forks, City of	835,000	435,000	7% for five years and 10.2596% for balance of 20 year term

APPENDIX B

The First Boston Corporation, as a representative of the underwriters, hereby represents and confirms as follows:

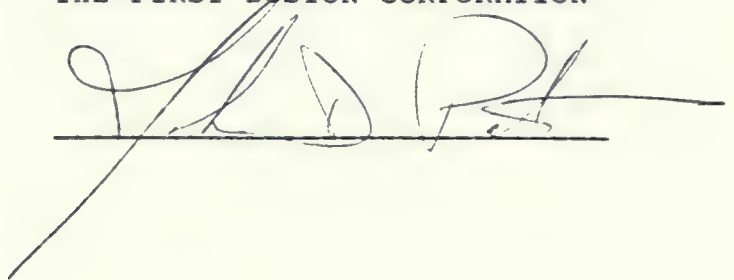
(a) The schedule of Sources and Uses of Funds and the Debt Service Schedule attached to this Appendix are true and correct in all respects material to the Certificate as to Arbitrage dated August 16, 1984, (hereinafter "Certificate"), to which this Appendix is attached.

(b) The statements made in the following sections of the Certificate are true and correct: Section 4.04(a), Section 5.01, Section 5.02, Section 6.02, and Section 6.03.

(c) This Appendix and the representations contained herein may be relied upon for purposes of the Certificate.

DATED this 16th day of August, 1984.

THE FIRST BOSTON CORPORATION

A handwritten signature, appearing to be "J. D. R.", is written over a horizontal line. A long, thin diagonal line extends from the bottom left of the signature across the page.

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
COAL SEVERANCE TAX BONDS -- 1984 SERIES A

DEBT SERVICE SCHEDULE

START DATE -- 8/01/81
ISSUING DATE -- 8/16/81
FIRST MATURITY DATED -- 12/01/85
LAST MATURITY DATED -- 12/01/05
TYPE OF DEBT SERVICE -- LEV DEBT

PRINCIPAL PAYMENT DATE	COUPON	PRINCIPAL AMOUNT	RED PRICE	EXTEND	INTEREST	ANNUAL TOTALS
12/01/84					336,890.83	336,890.83
6/01/85					505,336.25	505,336.25
12/01/85	6.750	190,000.00	100.000	190,000.00	505,336.25	1,200,672.50
6/01/86					498,923.75	498,923.75
12/01/86	7.200	205,000.00	100.000	205,000.00	498,923.75	1,200,810.00
6/01/87					491,543.75	491,543.75
12/01/87	7.400	220,000.00	100.000	220,000.00	491,543.75	1,203,087.50
6/01/88					483,403.75	483,403.75
12/01/88	7.700	235,000.00	100.000	235,000.00	483,403.75	1,204,897.50
6/01/89					474,356.25	474,356.25
12/01/89	8.000	250,000.00	100.000	250,000.00	474,356.25	1,203,712.50
6/01/90					464,156.25	464,156.25
12/01/90	8.250	275,000.00	100.000	275,000.00	464,156.25	1,203,312.50
6/01/91					452,812.50	452,812.50
12/01/91	8.500	300,000.00	100.000	300,000.00	452,812.50	1,205,625.00
6/01/92					440,062.50	440,062.50
12/01/92	8.750	325,000.00	100.000	325,000.00	440,062.50	1,205,125.00
6/01/93					425,843.75	425,843.75
12/01/93	9.000	350,000.00	100.000	350,000.00	425,843.75	1,204,687.50
6/01/94					410,093.75	410,093.75
12/01/94	9.200	385,000.00	100.000	385,000.00	410,093.75	1,205,187.50
6/01/95					392,383.75	392,383.75
12/01/95	9.400	420,000.00	100.000	420,000.00	392,383.75	1,204,767.50
6/01/96					372,643.75	372,643.75
12/01/96	9.500	460,000.00	100.000	460,000.00	372,643.75	1,205,287.50
6/01/97					350,723.75	350,723.75
12/01/97	10.125	500,000.00	100.000	500,000.00	350,723.75	1,204,007.50
6/01/98					325,481.25	325,481.25
12/01/98	10.125	550,000.00	100.000	550,000.00	325,481.25	1,200,962.50
6/01/99					297,827.50	297,827.50
12/01/99	10.125	610,000.00	100.000	610,000.00	297,827.50	1,205,790.00
6/01/00					266,756.25	266,756.25
12/01/00	10.250	670,000.00	100.000	670,000.00	266,756.25	1,203,512.50
6/01/01					232,418.75	232,418.75
12/01/01	10.250	740,000.00	100.000	740,000.00	232,418.75	1,204,837.50
6/01/02					194,493.75	194,493.75
12/01/02	10.250	815,000.00	100.000	815,000.00	194,493.75	1,203,987.50
6/01/03					152,725.00	152,725.00
12/01/03	10.250	900,000.00	100.000	900,000.00	152,725.00	1,205,450.00
6/01/04					106,600.00	106,600.00
12/01/04	10.250	990,000.00	100.000	990,000.00	106,600.00	1,203,200.00
6/01/05					55,862.50	55,862.50
12/01/05	10.250	1,090,000.00	100.000	1,090,000.00	55,862.50	1,201,725.00
		10,485,000.00		10,485,000.00	15,125,548.33	25,610,548.33

PAGE COUPON 9.2501
RUEED INTEREST 40,111.01
D YEARS 151,133,100
PAGE LIFE 14.414
FAR AMOUNT 10,485,000.00
LESS DISCOUNT -278,399.00
AMOUNT BID 10,206,601.00
FULL SPREAD 222,374.00
PRODUCTION 10,428,275.00

INTEREST COST 11,111.01
E INTEREST COST 11,111.01

FIRST BOSTON CORPORATION
IC FINANCE DEPARTMENT
NAME : DNEC1
RT : 7/30/81
RT : 81277

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
 COAL SEVERANCE TAX BONDS -- 1984 SERIES - A

SOURCES AND USES OF FUNDS

SOURCES

BOND PROCEEDS	10,425,000
ACCURED INTEREST	42,111
INVESTMENT EARNINGS ON	
CONSTRUCTION FUND	0
DEBT SERVICE RESERVE FUND	42,197
CAPITALIZED INTEREST ACCOUNT	0
OTHER REVENUES / CONTRIBUTIONS	0
FLOAT	0
OTHER REVENUES / CONTRIBUTIONS	0

TOTAL

10,549,308

USES

CONSTRUCTION FUND	9,858,440
UNDERWRITER'S DISCOUNT (2.407%)	252,374
BOND INSURANCE (0.0 %)	0
COST OF ISSUANCE	43,251
CAPITALIZED INTEREST REQUIREMENTS	0
DEBT SERVICE RESERVE REQUIREMENTS	602,812
DISCOUNT ON SALE	26,020
ROUNDING FACTOR	2,693

TOTAL

10,485,001

EXCESS MONEYS

84,307

METHOD OF CALCULATING CONSTRUCTION ACCOUNT :PRESENT VALUE

THE FIRST BOSTON CORPORATION
 PUBLIC FINANCE DEPARTMENT
 FILENAME: DNKCI
 DATE : 7/30/84
 REPORT : SIZE74


CERTIFICATE OF THE BOARD OF EXAMINERS WITH RESPECT TO
THE EXECUTION OF THE STATE OF MONTANA
COAL SEVERANCE TAX BONDS, DEPARTMENT OF
NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM, 1984 SERIES A,
AND THE SPECIMEN 1984 SERIES A BONDS

I, Jim Waltermire, the Secretary of State of the State of Montana and a member and the ex-officio Secretary of the Board of Examiners of the State of Montana, (the "Board"), DO HEREBY CERTIFY as follows:

1. The State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") in the aggregate principal amount of \$10,485,000 have been duly and officially executed in the name and on behalf of the State by imprinting on them the facsimile signatures of Ted Schwinden, the Governor and a member of the Board; Jim Waltermire, the Secretary of State and a member of the Board; and Mike Greely, the Attorney General and a member of the Board. These facsimile signatures are hereby adopted on behalf of the State as the official signatures of Ted Schwinden, Jim Waltermire, and Mike Greely, respectively, for the purpose of executing the Bonds.

2. Attached to this Certificate is a specimen Bond which, except as to number, interest rate and maturity, is identical in all respects to the Bonds issued and delivered in the aggregate principal amount of \$10,485,000 on the date of this Certificate.

IN WITNESS WHEREOF, I have executed this certificate on
August 16, 1984.


Jim Waltermire

UNITED STATES OF AMERICA



REGISTERED

NUMBER

R-

REGISTERED

STATE OF MONTANA
COAL SEVERANCE TAX BOND
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
WATER DEVELOPMENT PROGRAM
1984 SERIES A

RATEMATURITYDATE OF ORIGINAL ISSUE

August 1, 1984

CUSIP NUMBER

REGISTERED HOLDER:

PRINCIPAL SUM:

DOLLARS

The **STATE OF MONTANA**, for value received, acknowledges itself to be indebted and promises to pay solely from 1984 Series A Pledged Project Revenues and Pledged Tax Revenues as hereinafter described, to the registered holder named above or registered assigns, the principal sum stated above on the maturity date stated above, upon presentation and surrender of this bond at the office of the Treasurer of the State of Montana at Helena, Montana, Paying Agent, or, at the option of the owner hereof, at the corporate trust office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, or its successor as Paying Agent and Bond Registrar, with interest thereon from the date hereof at the rate of interest stated above per annum, payable semiannually on the first day of June and the first day of December in each year, commencing December 1, 1984, until the State's obligation with respect to the payment of such principal sum shall be discharged. Interest hereon shall be payable to the person in whose name this bond is registered at the close of business on each record date, which is the fifteenth day preceding each semi-annual interest payment date. The principal and all interest on this bond are payable in lawful money of the United States; provided, however, that interest on this fully registered bond shall be paid by check or draft mailed to the holder of this bond, by electronic transfer, or by any other means commercially accepted on the date of payment.

REFERENCE IS MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH HEREIN.

This bond shall not be valid or obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Bond Registrar.

IN WITNESS WHEREOF the State of Montana, by its Board of Examiners, has caused this bond to be executed by the signatures of the Governor, the Secretary of State and the Attorney General as the members of said Board, by facsimiles of their respective signatures reproduced hereon, and has caused a facsimile of the Great Seal of the State of Montana to be printed hereon and the certificate on the reverse side hereof to be executed with facsimiles of the signatures of said members of the Board of Examiners, and has caused this bond to be dated as of the date set forth below.

DATED:

BOND REGISTRAR'S CERTIFICATE

This bond is one of the 1984 Series A Bonds described in the Bond Resolution of the State Board of Examiners.

NORWEST BANK MINNEAPOLIS, N.A.,
 Bond Registrar

By:

Authorized Representative



Governor

Attorney General

Secretary of State

STATE OF MONTANA COAL SEVERANCE TAX BOND DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION WATER DEVELOPMENT PROGRAM 1984 SERIES A

This bond is one of a duly authorized series of bonds of the State designated "State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A" (herein called the "1984 Series A Bonds") issued by the State in the aggregate principal amount of \$10,485,000 under and pursuant to (i) MCA Sections 17-5-701 through 17-5-719, (ii) 1983 Mont. Laws Ch. 705, (iii) a General Resolution (the "General Resolution") adopted by the State Board of Examiners (the "Board") on August 1, 1984, and (iv) a 1984 Series A Supplemental Resolution (the "Supplemental Resolution") adopted by the Board on August 1, 1984. The General Resolution and the Supplemental Resolution are herein collectively called the "Bond Resolution". The 1984 Series A Bonds are all of the date and tenor, except as to serial number, interest rate, redemption provisions and maturity, and are issued for the purpose of making loans to finance certain water development projects, and for other purposes as authorized by the Bond Resolution. Reference is hereby made to the Bond Resolution, as the same may be amended and supplemented from time to time, for a description of the rights, limitation of rights, obligations, duties and immunities of the State, the Bond Registrar, the Paying Agents and the holders of the bonds issued thereunder. (All bonds issued under the General Resolution, including the 1984 Series A Bonds, are herein collectively called the "Bonds".) Certified copies of the Bond Resolution are on file in the corporate trust office of the Bond Registrar and in the office of the State Treasurer.

The 1984 Series A Bonds are limited obligations of the State payable solely from and secured by a pledge of (i) 50% of the revenues of the coal severance tax imposed by the State and held for up to six months in the Trust Fund Bond Account pursuant to the General Resolution (the "Pledged Tax Revenues"), (ii) all repayments received by the State with respect to the loans financed with the proceeds of the 1984 Series A Bonds (the "1984 Series A Pledged Project Revenues"), (iii) the amounts, if any, in the Surplus Project Revenue Account, (iv) all amounts in the Debt Service Reserve Account and (v) the proceeds of the 1984 Series A Bonds. The State has agreed to continue to assess, levy and collect the coal severance tax in amounts which, together with the other revenues, assets and money pledged for repayment of the Bonds, will be sufficient to pay when due the debt service on the Bonds.

Additional Bonds may be issued from time to time pursuant to supplemental resolutions in one or more series and in various principal amounts, which may mature at different times, may bear interest at different rates and may otherwise vary as provided in the General Resolution or any supplemental resolution amendatory thereof or supplemental thereto. Such additional Bonds cannot have a superior lien on the Pledged Tax Revenues or the 1984 Series A Pledged Project Revenues.

LEGAL OPINION

We certify that the issuance and sale of the within bond has been recorded by the Treasurer of the State of Montana and that we have caused to be printed below a full, true and correct copy of the legal opinion rendered by bond counsel, Oltzinger & Mullendore, Helena, Montana, on the issue of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A, of the State of Montana, which includes the within bond, dated as of the date of delivery of and payment for such Bonds.

Mike Dwyer
Attorney General

Jim Waltham
Secretary of State

Joe Schwilchen
Governor

Board of Examiners
State of Montana
Capitol Station
Helena, Montana 59620

Gentlemen:

We have examined a record of proceedings relating to the issuance of \$10,485,000 principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds").

The Bonds are authorized to be issued pursuant to MCA Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (collectively referred to as the "Enabling Act"), a General Resolution and a 1984 Series A Supplemental Resolution each adopted August 1, 1984 (collectively referred to as the "Bond Resolution") of the Board of Examiners consisting of the Governor, Secretary of State and Attorney General, and other proceedings relating thereto. Capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed thereto in the Bond Resolution.

The Bonds are issued as fully registered bonds, are dated August 1, 1984, and will mature on December 1 in the following years, in the respective principal amounts, and will bear interest from August 1, 1984 (payable semiannually on the first days of June and December of each year, commencing December 1, 1984) at the respective rates per annum, set forth opposite such years in the following table:

Year	Amount	Interest Rate
1985	\$ 190,000	8 1/4 %
1986	205,000	7 1/2
1987	220,000	7 1/4
1988	235,000	7 1/7
1989	255,000	8 1/8
1990	275,000	8 1/4
1991	300,000	8 1/8
1992	325,000	8 1/4
1993	350,000	8 1/8
1994	385,000	8 1/2
1995	420,000	8 1/4
1996	460,000	9 1/4
1999	1,680,000	10 1/4
2005	5,205,000	10 1/4

The Bonds are subject to redemption prior to maturity in whole or in part at such time or times, under such circumstances including the payment of sinking fund installments, at such redemption prices, and in such manner as set forth in the Bond Resolution. The Board has the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution.

The Bonds are issued to provide moneys with which to make loans to various local government units, political subdivisions and water users' associations in the state of Montana (the "State") to finance various water development projects.

We are of the opinion that:

(1) Under the Constitution and laws of the State the Enabling Act has been duly enacted, and the State, acting through the Board of Examiners, has the power (i) to become indebted by the issuance of the Bonds, (ii) to adopt the Bond Resolution, and (iii) to perform its obligations under the terms and conditions of the Bonds and the Bond Resolution.

(2) The Bond Resolution has been duly adopted by the Board of Examiners, is valid and binding upon the State, is enforceable in accordance with its terms and creates the valid pledge which it purports to create with respect to the Pledged Tax Revenues, the 1984 Series A Pledged Project Revenues, the proceeds of the Bonds, and the contents of the Debt Service Reserve Account and the Surplus Project Revenue Account. All conditions precedent to the adoption of the Bond Resolution have been met and no other or further authorization for the Bond Resolution or the issuance of the Bonds is required.

(3) The Bonds are legal, valid and binding limited obligations of the State payable solely from Pledged Tax Revenues, 1984 Series A Pledged Project Revenues (as defined in the Bond Resolution) and the proceeds of the Bonds, and are further secured by the amounts in the Debt Service Reserve Account and the Surplus Project Revenue Account.

(4) The adoption of the Bond Resolution and the issuance of the Bonds thereunder will not conflict with nor constitute a breach of or default under any law, regulation or agreement relating to indebtedness of the State to which the State is subject or is otherwise a party. There is no constitutional debt limit applicable to the Bonds, and the amount of Bonds issued is within the statutory limit therefor.

(5) Under existing laws, regulations, rulings and decisions, interest on the Bonds is exempt from federal income taxes.

(6) Under existing Montana laws, interest on the Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

We have examined an executed Bond and in our opinion the form of said Bond and its execution are regular and proper.

In rendering this opinion, we advise you that the enforceability of rights and remedies with respect to such Bonds and the Bond Resolution may be limited by bankruptcy, insolvency or other laws heretofore or hereafter enacted affecting creditors' rights or remedies.

Very truly yours,
OLTZINGER & MULLENDORE

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

ASSIGNMENT

(please print or typewrite name and address of transferee)

(please insert social security or other identifying number of assignee)

the within bond and all rights and title thereunder, and hereby irrevocably constitutes and appoints

to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

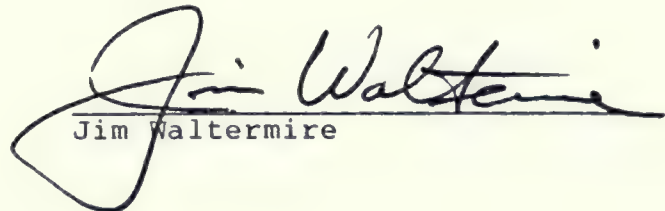
as attorney

Dated: _____

ORDER OF THE BOARD OF EXAMINERS
TO THE BOND REGISTRAR TO AUTHENTICATE
AND DELIVER THE BONDS

I, Jim Waltermire, the Secretary of State of the State of Montana and a member and the ex-officio Secretary of the Board of Examiners of the State of Montana, do hereby, on behalf of the State, authorize and direct Norwest Bank Minneapolis, N.A. (the "Bond Registrar"), in accordance with the General Resolution dated August 1, 1984, and the 1984 Series A Supplemental Resolution dated August 1, 1984, to authenticate the \$10,485,000 State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds"), in the denominations, at the interest rates and with the maturity dates shown in the Schedule "A" which is attached to this Order, and to deliver the authenticated Bonds to The First Boston Corporation, as representative of the underwriters who have contracted to purchase the Bonds.

IN WITNESS WHEREOF, I have executed this Order on August 16, 1984.


Jim Waltermire

SCHEDULE A

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985	\$ 190,000	6 3/4
1986	205,000	7.2
1987	220,000	7.4
1988	235,000	7.7
1989	255,000	8.0
1990	275,000	8 1/4
1991	300,000	8 1/2
1992	325,000	8 3/4
1993	350,000	9.0
1994	385,000	9.2
1995	420,000	9.4
1996	460,000	9 1/2
1999	1,660,000	10 1/8
2005	5,205,000	10 1/4

CERTIFICATE OF THE BOND REGISTRAR
WITH RESPECT TO THE AUTHENTICATION AND DELIVERY
OF THE BONDS

I, the undersigned officer of Norwest Bank Minneapolis, N.A., (the "Bond Registrar") do hereby certify as follows:

1. I am an officer of the Bond Registrar authorized to make statements with respect to the authentication and delivery of the State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the Bonds).

2. The appointment of the Bond Registrar by the Supplemental Resolution dated August 1, 1984, (the "Supplemental Resolution") has been duly accepted by the Bond Registrar.

3. The Bond Registrar has received all documents and instruments which are required to be received by the Bond Registrar under the General Resolution dated August 1, 1984 (the General Resolution) and the Supplemental Resolution as conditions precedent to the authentication and delivery of the Bonds.

4. The Bond Registrar has duly authenticated each of the Bonds in the manner required by the General Resolution, the Supplemental Resolution, and the Order of the Board of Examiners made on this date (the "Order").

5. The Bond Registrar has examined the Bonds so authenticated and found them to be in the denominations, at

the interest rates, and with the maturity dates shown in Schedule "A" attached to the Order, and to be in substantially the form set forth in the Supplemental Resolution.

6. The Bond Registrar has delivered all of the authenticated Bonds to The First Boston Corporation, as representative of the underwriters who have contracted to purchase the Bonds.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.

NORWEST BANK MINNEAPOLIS, N.A.

By:

A handwritten signature in dark ink, appearing to read "David M. Haddock", is written over a horizontal line.

SCHEDULE A

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985	\$ 190,000	6 3/4
1986	205,000	7.2
1987	220,000	7.4
1988	235,000	7.7
1989	255,000	8.0
1990	275,000	8 1/4
1991	300,000	8 1/2
1992	325,000	8 3/4
1993	350,000	9.0
1994	385,000	9.2
1995	420,000	9.4
1996	460,000	9 1/2
1999	1,660,000	10 1/8
2005	5,205,000	10 1/4

RECEIPT FOR BONDS

The undersigned, an authorized officer of The First Boston Corporation, hereby acknowledges receipt on the date set forth below of the State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds"), in the aggregate principal amount of \$10,485,000 from Norwest Bank Minneapolis, N.A., the Bond Registrar with respect to the Bonds.

DATED August 16, 1984.

THE FIRST BOSTON CORPORATION
DAIN BOSWORTH INCORPORATED
D.A. DAVIDSON & CO.

BY: THE FIRST BOSTON
CORPORATION

By: 

ORDER OF THE BOARD OF EXAMINERS
TO THE TREASURER TO DEPOSIT THE BOND PROCEEDS
AND TO TRANSFER AMOUNTS TO THE DEBT SERVICE RESERVE ACCOUNT

I, Jim Waltermire, the Secretary of State of the State of Montana and a member and the ex-officio Secretary of the Board of Examiners of the State of Montana, do hereby, on behalf of the State:

1. Authorize and direct the Treasurer of the State of Montana (the "Treasurer") to receive the balance of the purchase price for the State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") from The First Boston Corporation, as representative of the underwriters who have contracted to purchase the Bonds. The balance of the purchase price due at closing is calculated as follows:

Principal amount of the Bonds	\$10,485,000.00
Plus: Accrued interest	42,111.34
Less Original Issue Discount	26,025.00
Less: Underwriters' Discount	252,374.00
<hr/> Total Purchase Price	<hr/> 10,248,712.34
Less: Good Faith Deposit	104,850.00
<hr/> Balance of Purchase Price due at closing	<hr/> \$10,143,862.34

2. Authorize and direct the Treasurer, in accordance with the General Resolution dated August 1, 1984, and the 1984 Series A Supplemental Resolution dated August 1, 1984, to deposit the total purchase price of the Bonds into the following accounts in the following amounts:

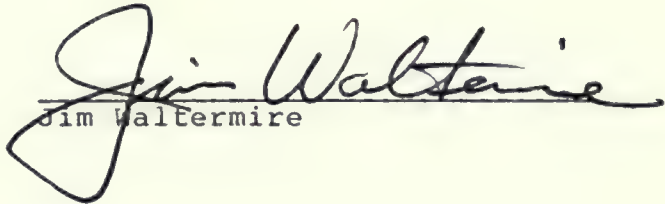
- (a) To the Debt Service Reserve Account, \$602,812;
- (b) To the 1984 Series A Debt Service Account,

\$42,111.34, this being the amount received as accrued interest on the Bonds;

- (c) To the 1984 Series A Bond Proceeds Account to pay the costs of issuance of the Bonds, \$45,344.00; and
- (d) To the Bond Proceeds Account to be used to pay project costs, \$9,558,445.

3. Authorize and direct the Treasurer, in accordance with Section 5.05 of the 1984 Series A Supplemental Resolution, to transfer \$602,813 from the Trust Fund Bond Account to the Debt Service Reserve Account.

IN WITNESS WHEREOF, I have executed this order on August 16, 1984.


Jim Waltermire

CERTIFICATE OF THE TREASURER
WITH RESPECT TO THE RECEIPT
AND DEPOSIT OF THE BOND PROCEEDS
AND THE TRANSFER OF AMOUNTS TO THE
DEBT SERVICE RESERVE ACCOUNT

I, MORRIS BRUSETT, the duly qualified and acting
Treasurer of the State of Montana, DO HEREBY CERTIFY as
follows:

1. On the date of this certificate I have received
\$10,143,862.34 from The First Boston Corporation, as
representative of the underwriters who have contracted to
purchase all of the State of Montana Coal Severance Tax
Bonds, Department of Natural Resources and Conservation Water
Development Program, 1984 Series A (the "Bonds"), in payment
for the balance of the purchase price due on the Bonds. The
balance of the purchase price due at closing is calculated as
follows:

Principal amount of the Bonds	\$10,485,000.00
Plus: Accrued interest	42,111.34
Less: Original Issue Discount	26,025.00
Less: Underwriters' Discount	252,374.00
<u>Total Purchase Price</u>	<u>\$10,248,712.34</u>
Less: Good Faith Deposit	104,850.00
Balance of Purchase Price due at closing	\$10,143,862.34


2. On the date of this certificate I have, in
accordance with the General Resolution dated August 1, 1984,
and the 1984 Series A Supplemental Resolution dated August 1,
1984, deposited the total purchase price for the Bonds in the
following accounts and in the following amounts:

(a) To the Debt Service Reserve Account, \$602,812;

- (b) To the 1984 Series A Debt Service Account, \$42,111.34, this being the amount received as accrued interest on the Bonds;
- c) To the 1984 Series A Bond Proceeds Account to pay the costs of issuance of the Bonds, \$45,344.00; and
- d) To the 1984 Series A Bond Proceeds Account to be used to pay project costs, \$9,558,445.

3. On the date of this Certificate I have, in accordance with Section 5.05 of the 1984 Supplemental Resolution, transferred \$602,813 from the Trust Fund Bond Account to the Debt Service Reserve Account.

IN WITNESS WHEREOF, I have executed this certificate on August 16, 1984.



Morris Brusett

OITZINGER & MULLENDORE

ATTORNEYS AT LAW
Power Block Building
Last Chance Gulch
Helena, Montana 59601
(406) 449-6390

TELECOPIER
(406) 443-0745

John J. Oitzinger
Robert G. Mullendore
John S. Dayton

August 16, 1984

Board of Examiners
State of Montana
Capitol Station
Helena, Montana 59620

Gentlemen:

We have examined a record of proceedings relating to the issuance of \$10,485,000 principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds").

The Bonds are authorized to be issued pursuant to MCA Sections 17-5-701 through 17-5-719 and 1983 Montana Laws Chapter 705 (collectively referred to as the "Enabling Act"), a General Resolution and a 1984 Series A Supplemental Resolution each adopted August 1, 1984 (collectively referred to as the "Bond Resolution") of the Board of Examiners consisting of the Governor, Secretary of State and Attorney General, and other proceedings relating thereto. Capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed thereto in the Bond Resolution.

The Bonds are issued as fully registered bonds, are dated August 1, 1984, and will mature on December 1 in the following years, in the respective principal amounts, and will bear interest from August 1, 1984 (payable semiannually on the first days of June and December of each year, commencing December 1, 1984) at the respective rates per annum, set forth opposite such years in the following table:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1985	\$ 190,000	6 3/4 %
1986	205,000	7.2
1987	220,000	7.4
1988	235,000	7.7
1989	255,000	8.0
1990	275,000	8 1/4
1991	300,000	8 1/2
1992	325,000	8 3/4

1996	460,000	9 1/2
1999	1,660,000	10 1/8
2005	5,205,000	10 1/4

The Bonds are subject to redemption prior to maturity in whole or in part at such time or times under such circumstances including the payment of sinking fund installments, at such redemption prices, and in such manner as set forth in the Bond Resolution. The Board has the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution.

The Bonds are issued to provide moneys with which to make loans to various local government units, political subdivisions and water users' associations in the state of Montana (the "State") to finance various water development projects.

We are of the opinion that:

(1) Under the Constitution and laws of the State the Enabling Act has been duly enacted, and the State, acting through the Board of Examiners, has the power (i) to become indebted by the issuance of the Bonds, (ii) to adopt the Bond Resolution, and (iii) to perform its obligations under the terms and conditions of the Bonds and the Bond Resolution.

(2) The Bond Resolution has been duly adopted by the Board of Examiners, is valid and binding upon the State, is enforceable in accordance with its terms and creates the valid pledge which it purports to create with respect to the Pledged Tax Revenues, the 1984 Series A Pledged Project Revenues, the proceeds of the Bonds, and the contents of the Debt Service Reserve Account and the Surplus Project Revenue Account. All conditions precedent to the adoption of the Bond Resolution have been met and no other or further authorization for the Bond Resolution or the issuance of the Bonds is required.

(3) The Bonds are legal, valid and binding limited obligations of the State payable solely from Pledged Tax Revenues, 1984 Series A Pledged Project Revenues (as defined in the Bond Resolution) and the proceeds of the Bonds, and are further secured by the amounts in the Debt Service Reserve Account and the Surplus Project Revenue Account.

(4) The adoption of the Bond Resolution and the issuance of the Bonds thereunder will not conflict with nor constitute a breach of or default under any law, regulation or agreement relating to indebtedness of the State to which the State is subject or is otherwise a party. There is no

constitutional debt limit applicable to the Bonds, and the amount of Bonds issued is within the statutory limit therefor.

(5) Under existing laws, regulations, rulings and decisions, interest on the Bonds is exempt from federal income taxes.

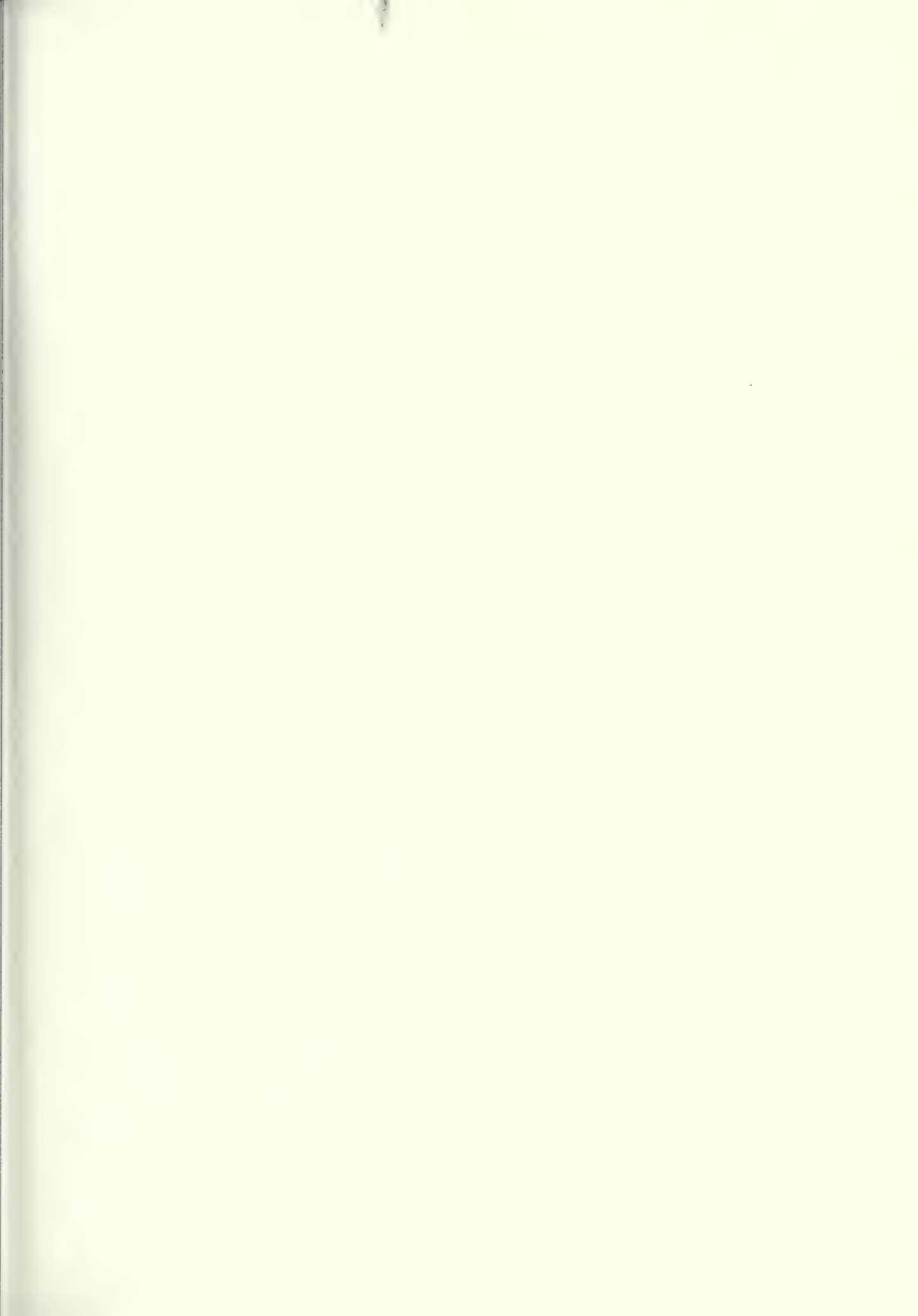
(6) Under existing Montana laws, interest on the Bonds is exempt from all Montana taxes except for inheritance, estate, gift and corporate license taxes.

We have examined an executed Bond and in our opinion the form of said Bond and its execution are regular and proper.

In rendering this opinion, we advise you that the enforceability of rights and remedies with respect to such Bonds and the Bond Resolution may be limited by bankruptcy, insolvency or other laws heretofore or hereafter enacted affecting creditors' rights or remedies.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Charles F. Mullendore", is written over a faint, circular embossed seal. The seal contains text that is mostly illegible but appears to include "Tzinger & Mullendore" and "Attorneys at Law".



OITZINGER & MULLENDORE

ATTORNEYS AT LAW
Power Block Building
Last Chance Gulch
Helena, Montana 59601

(406) 449-6390

August 16, 1984

TELECOPIER
(406) 443-0745

J. Oitzinger
ort G. Mullendore
S. Dayton

Board of Examiners
State of Montana
Capitol Station
Helena, Montana 59620

Re: State of Montana Coal Severance Tax Bonds,
Department of Natural Resources and
Conservation Water Development Program,
1984 Series A

Gentlemen:

We have acted as bond counsel in connection with the issuance of \$10,485,000 aggregate principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") by the State of Montana. In connection therewith we have delivered to the State under even date herewith our approving opinion (the "Approving Opinion") with respect to the Bonds. The Approving Opinion is hereby incorporated herein by reference as if set forth in full.

We hereby further advise you that:

Although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement dated August 1, 1984, with respect to the Bonds, make no representation that we have independently verified such statements and have necessarily assumed the fairness, accuracy and completeness thereof, on the basis of our participation in the preparation of the Official Statement and in connection with the rendering of our opinion as to the validity of the Bonds, nothing has come to our attention that would give us reason to believe that the Official Statement (except for the financial statements or other financial, forecasted or statistical data included therein, as to which we express no view), as of the date of the Official Statement, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

Oitzinger & Mullendore



OITZINGER & MULLENDORE

ATTORNEYS AT LAW
Power Block Building
Last Chance Gulch
Helena, Montana 59601
(406) 449-6390

TELECOPIER
(406) 443-0745

Mr. J. Oitzinger
Mr. G. Mullendore
Mr. S. Dayton

August 16, 1984

The First Boston Corporation
Dain Bosworth Incorporation
D.A. Davidson & Co. Incorporated

Re: State of Montana Coal Severance Tax Bonds,
Department of Natural Resources and Conservation
Water Development Program, 1984 Series A

Dear Sirs:

We have acted as bond counsel in connection with the issuance of \$10,485,000 aggregate principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the "Bonds") by the State of Montana. In connection therewith we have delivered to the Board under even date herewith our approving opinion (the "Approving Opinion") with respect to the Bonds. The Approving Opinion is hereby incorporated herein by reference as if set forth herein in full. Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in General Resolution and Supplemental Resolution each adopted on August 1, 1984.

We hereby advise you that you may rely on the Approving Opinion to the same extent as if it were addressed to you.

We hereby further advise you that:

(1) We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement dated August 1, 1984, except to the extent specifically set forth in this opinion, and we make no representation that we have independently verified the accuracy, completeness or fairness of such statements. However, in the course of the preparation of the Official Statement, and in our capacity as bond counsel in connection with the issuance of the Bonds, we met in conferences with representatives of the Department, your representatives and your counsel, Dorsey and Whitney, at which conferences the contents of the Official Statement and related matters were discussed. Our examination of the Official Statement and our participation in the above-mentioned conferences did not disclose to us any

information which gives us reason to believe that, as of the date thereof and as of the date hereof, the Official Statement (except for the financial, forecasted and statistical data included in the Official Statement and the appendices attached thereto, as to which we express no view) contains any untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(2) The Purchase Contract dated August 1, 1984, between you and the Board has been duly authorized, executed and delivered by, and assuming authorization, execution and delivery by you, constitutes the valid and binding agreement in accordance with its terms of the Board;

(3) The Bonds are not subject to the registration requirement of the Securities Act of 1933, as amended, and the Bond Resolution is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(4) The information contained in the Official Statement under the captions "Montana Supreme Court Decision," "the 1984 Series A Bonds" and "Security and Sources of Payment for the 1984 Series A Bonds" present a fair, accurate and complete description of the Montana Supreme Court Decision so described, the Bonds, the General Resolution and the Supplemental Resolution;

(5) The contractual undertakings of the State made in the Bond Resolution are binding on the State Legislature;

(6) There is no litigation or administrative action pending in any court which would restrain or enjoin the issuance, sale, execution or delivery of the bonds, or which in any way contests or affects the validity of the Bonds, or which concerns the proceedings of the board taken in connection with the issuance and sale of the Bonds or the pledge or application of any Pledged Tax Revenues or 1984 Series A Pledged Project Revenues (as defined in the Bond Resolution) provided for their payment, or which contests the powers of the State, the Department or the Board with respect to the foregoing.

Very truly yours,

ZINGER & MULLENDORE

DORSEY & WHITNEY

A Partnership Including Professional Corporations

2200 FIRST BANK PLACE EAST
MINNEAPOLIS, MINNESOTA 55402
(612) 340-2600

TELEX: 29-0605
TELECOPIER: (612) 340-2868

510 NORTH CENTRAL LIFE TOWER
445 MINNESOTA STREET
ST. PAUL, MINNESOTA 55101
(612) 227-8017

P. O. BOX 848
40 FIRST NATIONAL BANK BUILDING
ROCHESTER, MINNESOTA 55903
(507) 288-3156

312 FIRST NATIONAL BANK BUILDING
WAYZATA, MINNESOTA 55391
(612) 475-0373

201 DAVIDSON BUILDING
8 THIRD STREET NORTH
GREAT FALLS, MONTANA 59401
(406) 727-3632

SUITE 675 NORTH
1800 M STREET N. W.
WASHINGTON, D. C. 20036
(202) 296-2780

30 RUE LA BOÉTIE
75008 PARIS, FRANCE
OII 331 562 32 50

August 16, 1984

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co., Incorporated

Re: State of Montana Coal Severance Tax Bonds,
Department of Natural Resources and Conservation
Water Development Program, 1984 Series A

Dear Sirs:

We have acted as your counsel in connection with your purchase of \$10,485,000 aggregate principal amount of State of Montana Coal Severance Tax Bonds, Department of Natural Resources and Conservation Water Development Program, 1984 Series A (the Bonds) issued by the State of Montana (the State). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the General Resolution and Supplemental Resolution each adopted on August 1, 1984 by the Board of Examiners (the Board) of the State of Montana.

We hereby advise you that:

(1) We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement dated August 1, 1984, except to the extent specifically set forth in this opinion, and we make no representation that we have independently verified the accuracy, completeness or fairness of such statements. However, in the course of the preparation of the Official Statement, and in our capacity as your counsel, we met in conferences with representatives of the Department and of the State at which conferences the contents of the Official Statement and related matters were discussed. Our examination of the Official Statement and our participation in the above-mentioned conferences did not disclose to us any information which gives us reason to believe that, as of the date thereof and as of the date hereof, the Official

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Statement (except for the financial, forecasted and statistical data included in the Official Statement and the appendices attached thereto, as to which we express no view) contains any untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(2) In our opinion, the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended and the Bond Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

Very truly yours,

DORSEY & WHITNEY

Dorsey & Whitney

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

State of Montana
Board of Examiners

We have reviewed the accompanying Combined Balance Sheet - All Fund Types and Accounts Groups of the State of Montana and the Combining Balance Sheet - All Higher Education Funds as of June 30, 1983 and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Equity/Fund Balances - All Proprietary Fund Types and Similar Trust Funds; Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund and Special Revenue Fund Type; and Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds for the fiscal year then ended, in accordance with standards established by the AICPA. All information included in these financial statements is the representation of officials of the State of Montana.

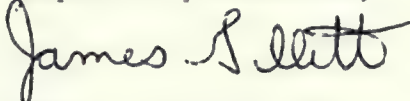
A review consists principally of inquiries of department personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, with the exception of the matters described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Certain items in the financial statements are not presented in accordance with generally accepted accounting principles. These items related to omission of required statements, quasi-external transactions, and intra-fund transactions and are outlined in the

Basis of Presentation section under Note 1 to the financial statements. The dollar effect of these departures from generally accepted accounting principles on financial position, results of operations, and changes in financial position have not been determined.

Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

July 23, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

mslh

DORSEY & WHITNEY

A Partnership Including Professional Corporations

2200 FIRST BANK PLACE EAST
MINNEAPOLIS, MINNESOTA 55402
(612) 340-2600

TELEX: 29-0605
TELECOPIER: (612) 340-2868

July 24, 1984

\$11,000,000*
State of Montana
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
c/o The First Boston Corporation
101 California Street, Suite 4300
San Francisco, California 94111

Re: Preliminary Blue Sky Memorandum

Gentlemen:

This Preliminary Blue Sky Memorandum is furnished to you for use in connection with the proposed offering and sale of \$11,000,000* aggregate principal amount of State of Montana, Coal Severance Tax Bonds, Department of Natural Resources and Conservation, Water Development Program, 1984 Series A (the "Bonds"). This Memorandum supplies summary information concerning the extent to which and the conditions upon which offers to sell and solicitations of offers to buy the Bonds, made orally or through written materials complying with the applicable state securities or Blue Sky laws (the "Blue Sky laws") and the rules and regulations thereunder (hereafter collectively referred to as "offers"), and sales or contracts for sale ("sales") will be permissible under the Blue Sky laws of the fifty states, Puerto Rico and the District of Columbia (the "States").

*Preliminary, subject to change

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The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

States in Which Action Is Not Required

In the following States our survey indicates that no action need be taken before offers and sales of the Bonds may be made to the public in the respective States by brokers or dealers registered or licensed therein:

Alabama	Kansas	North Carolina
Alaska	Kentucky	North Dakota
Arizona	Louisiana	Oklahoma
Arkansas	Maine	Oregon (3)
California	Maryland	Pennsylvania
Colorado	Massachusetts (1)	Puerto Rico
Connecticut	Michigan	Rhode Island
Delaware	Minnesota	South Carolina
District of Columbia	Mississippi	South Dakota
Florida	Missouri	Tennessee
Georgia	Montana	Texas
Hawaii	Nebraska	Utah
Idaho	Nevada (2)	Vermont
Illinois	New Jersey	Virginia
Indiana	New Mexico	Washington
Iowa	New York	West Virginia
		Wyoming

-
- (1) Provided an appropriate consent to service of process has been filed with the state secretary.
- (2) In Nevada the Bonds may be sold to anyone by broker-dealers registered in Nevada and by any broker or dealer who is registered pursuant to the provisions of the Securities Exchange Act of 1934 or who is a member of the National Association of Securities Dealers, Inc.
- (3) Provided the Bonds receive a BBB or better rating by Fitch Investors Services, Inc., a Baa or better rating by Moody's Investors Service, Inc. or a BBB or better rating by Standard & Poor's Corporation.

State In Which Action Has Not Been Completed

In the following State, sales of the Bonds to the public in the principal amount indicated below may be made only after certain

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The First Boston Corporation
Dain Bosworth Incorporated
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July 24, 1984

requirements as to filing or registration have been met with respect to the Bonds to be sold therein and only if made by brokers or dealers registered or licensed in such State. Action is being taken to comply with those requirements and such action must be completed before any sale of the Bonds may be made (except in exempt transactions, some of which are described in this Memorandum under the heading "Exempt Transactions in Certain States"). It should not be assumed that such action in such State can or will be completed. We shall advise you by supplemental memorandum when action in this State has been completed. Pending completion of such action, our survey indicates that offers by brokers or dealers registered or licensed in this State may not be made:

State

Principal Amount

Ohio

Entire Issue

States In Which Action Has Not Been Taken

In the following States no action is being taken to make the Bonds eligible or to determine their eligibility for sale and the Bonds may not be offered or sold in such States (except in exempt transactions, if any, which are not described in this Memorandum):

New Hampshire
Wisconsin

Exempt Transactions In Certain States

Our survey indicates that offers and sales of the Bonds to the institutions specified in the respective States may be made without the registration of the Bonds or certain filings being made or completed and, except as otherwise provided, persons making such offers or sales need not be licensed as brokers or dealers in the respective States. The term "Institutional Buyer" as hereafter used shall only mean any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer:

Alabama Any Institutional Buyer, credit union or dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

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July 24, 1984

Alaska (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Arizona	Any bank, savings institution, insurance company, dealer, agency or instrumentality of the United States or of a state, or any person a principal part of whose business consists of buying securities.
Arkansas (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
California (2)	The Federal Government, any agency or instrumentality of the Federal Government, corporation wholly owned by the Federal Government, state, city, city and county, county, agency or instrumentality of a state, city, city and county, or county, state university or state college, or retirement system for the benefit of employees of any of the foregoing.
Colorado (3)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Connecticut (4)	Any state bank and trust company, national banking association, mutual savings bank, savings and loan association, federal savings and loan association, credit union, federal credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Delaware (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
District of Columbia (1)....	Any Institutional Buyer or broker-dealer, whether acting for itself or in some fiduciary capacity.

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The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

Florida Any bank or trust company, whether acting in its individual or fiduciary capacity, savings institution, insurance company, dealer, regulated investment company, or any pension or profit-sharing plan having assets not less than \$500,000; provided that any offer or sale to any of the foregoing is not for the direct or indirect promotion of any scheme or enterprise with the intent of violating or evading any provision of the Florida Securities Act.

Georgia Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution, or dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

Hawaii (1) Any Institutional Buyer or dealer, and any organization coming within the scope of Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, whether the purchaser is acting for itself or in some fiduciary capacity.

Idaho Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

Illinois Any corporation, bank, savings institution, trust company, insurance company, building and loan association, dealer, pension fund or pension trust, employees' profit-sharing trust, or any association engaged as a substantial part of its business or operations in purchasing or holding securities or any trust in respect of which a bank or trust company is trustee or co-trustee.

Indiana (1) Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

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July 24, 1984

Iowa (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Kansas	Any Institutional Buyer or broker-dealer or underwriter.
Kentucky	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Louisiana	Any bank, savings institution, trust company, insurance company or any corporation or any broker or dealer, provided such broker or dealer is actually engaged in buying and selling securities as a business.
Maine (5)	Any Institutional Buyer or registered dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Maryland (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Massachusetts (1) ...	Any Institutional Buyer, broker-dealer or any entity, other than an individual, a substantial part of whose business activities consist of investing, purchasing, selling or trading in securities of others and that has gross assets of \$1,000,000 or more at the end of its latest fiscal year, including, but not limited to, any charitable organization, whether the purchaser is acting for itself or in some fiduciary capacity.
Michigan (1)	Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust the assets of which are managed by a bank or trust company or other institutional manager, or other financial institution or institutional manager, or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

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Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

Minnesota (6)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Mississippi (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Missouri (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Montana	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Nebraska	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Nevada (7)	Anyone.
New Jersey (8)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
New Mexico	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
New York (9)	Any state or national bank, trust company or savings institution incorporated under the laws and subject to the examination, supervision and control of any state or of the United States or of any insular possession thereof, any dealer or broker, or any syndicate, corporation or group formed for the specific purpose of acquiring such securities for resale to the public directly or through other syndicates or groups.
North Carolina (1)...	Any Institutional Buyer or corporation, whether the purchaser is acting for itself or in some fiduciary capacity.

DORSEY & WHITNEY

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

North Dakota	Any bank, savings bank, savings institution, trust company, insurance company, registered dealer or any corporation, organization or association a principal part of whose business consists of the buying of securities.
Ohio (5)	Any bank, trust company, building and loan association, or savings association incorporated or organized under the laws of the United States or of any state thereof, or of the Dominion of Canada or of any province thereof, and subject to regulation or supervision by such country, state or province; or any corporation, insurance company, pension fund or trust, employees' profit-sharing fund or trust, any association engaged as a substantial part of its business or operations in purchasing or holding securities, or any trust in respect of which a bank is trustee or co-trustee.
Oklahoma (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Oregon	Any bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust, or other financial institution or institutional buyer or broker-dealer.
Pennsylvania (10)....	Any bank, insurance company, pension or profit-sharing plan or trust, investment company as defined in the Investment Company Act of 1940, other financial institution or any person, other than an individual, which controls any of the foregoing, the Federal Government, state or any agency or political subdivision thereof or other persons presently designated by regulation of the Pennsylvania Securities Commission, whether the buyer is acting for itself or in some fiduciary capacity.

DORSEY & WHITNEY

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

- Puerto Rico (4)..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Companies Act of Puerto Rico, pension or profit-sharing trust, or other financial institution or institutional buyer, or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
- Rhode Island..... Any national bank, or any bank, trust company, insurance company or association under the supervision of the Director of Business Regulation of Rhode Island, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust or institutional buyer, provided the securities are purchased for its own account and investment.
- South Carolina (1) .. Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
- South Dakota Any bank, savings institution, trust company, insurance company, savings and loan association, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or this State or any agency or political subdivision thereof, or other financial institution or institutional buyer, or licensed broker, whether such person is acting for itself or as a trustee.
- Tennessee (11) Any bank, trust company, insurance company, investment company registered under the Investment Company Act of 1940, as amended, any holding company which controls any of the foregoing, any trust or fund over which any of the foregoing has or shares investment discretion, or any other person engaged as a substantial part of its business in investing in securities, in each case having a net worth in excess of \$1,000,000.

DORSEY & WHITNEY

The First Boston Corporation
Dain Bosworth Incorporated
D. A. Davidson & Co.
July 24, 1984

Texas	Any bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution (including any federally chartered credit union or savings and loan association and any credit union or savings and loan association chartered under the laws of any state of the United States), investment company as defined in the Investment Company Act of 1940, or small business investment company as defined in the Small Business Investment Act of 1958, as amended, or any registered dealer actually engaged in buying and selling securities.
Utah (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Vermont	Any bank, savings institution, trust company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, other financial institution or institutional buyer or broker-dealer, whether the purchaser is acting for itself or in a fiduciary capacity.
Virginia	Any corporation, investment company or pension or profit-sharing trust or broker-dealer.
Washington	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
West Virginia (1) ...	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.
Wyoming (1)	Any Institutional Buyer or broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

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July 24, 1984

- (1) Provided that the offeror or seller (i) is registered or licensed as a broker or dealer in this State or (ii) has no place of business in this State and effects transactions in this State exclusively with or through (a) registered or licensed brokers or dealers or (b) Institutional Buyers, whether acting for themselves or as trustees.
- (2) Provided that the offeror or seller (i) is licensed as a broker-dealer in this State or (ii) has no place of business in this State, does not direct offers to sell or buy into this State in any manner to persons other than licensed broker-dealers, banks, savings and loan associations, trust companies, insurance companies, investment companies registered under the Investment Company Act of 1940, pension or profit-sharing trusts (other than self-employed individual retirement plans), or other institutional investors or governmental agencies or instrumentalities designated by rule of the California Commissioner of Corporations, is registered under the Securities Exchange Act of 1934, and has not had any certificates denied or revoked under the California Corporate Securities Law of 1968 or its predecessor statutes.
- (3) Provided that the offeror or seller (i) is registered or licensed as a broker or dealer in this State or (ii) is registered as a broker or dealer under the Securities Exchange Act of 1934 and has filed the notice required by and met the other requirements of Section 11-51-105(3) of the Colorado Securities Act of 1981.
- (4) Provided that the offeror or seller (i) is registered as a broker-dealer in this State or (ii) has no place of business in this State and effects transactions in this State exclusively with or through (a) registered broker-dealers or (b) the institutions specified above with respect to this State, whether acting for themselves or as trustees.
- (5) Provided that the offeror or seller is registered or licensed as a broker or dealer in this State.

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July 24, 1984

- (6) Provided that the offeror or seller (i) is licensed as a broker-dealer in this State or (ii) has no place of business in this State and effects transactions in this State exclusively with or through (a) licensed broker-dealers or (b) Institutional Buyers, whether the purchasers are acting for themselves or in some fiduciary capacity.
- (7) Provided that the offeror or seller (i) is registered as a broker-dealer in this State or (ii) is registered as a broker or dealer pursuant to the provisions of the Securities Exchange Act of 1934 or (iii) is a member of the NASD or (iv) has no place of business in this State and effects transactions in this State exclusively with or through (a) registered or licensed brokers or dealers or (b) Institutional Buyers, whether acting for themselves or as trustees.
- (8) Provided that the offeror or seller (i) is registered as a broker-dealer in this State or (ii) effects transactions in this State exclusively with or through (a) registered broker-dealers or (b) Institutional Buyers, whether acting for themselves or as trustees.
- (9) Unless the offeror or seller engages in such other activities in this State which may require it to be registered as a broker or dealer in this State.
- (10) Provided that the offeror or seller (i) is registered as a broker-dealer in this State or (ii) has no place of business in this State, is registered as a broker-dealer pursuant to the provisions of the Securities Exchange Act of 1934, has not previously had any certificate denied or revoked under this State's Blue Sky laws or any predecessor statute and does not direct offers to sell or buy into this State in any manner to persons other than registered broker-dealers or the institutions specified above with respect to this State.
- (11) Provided that the offeror or seller (i) is registered as a broker-dealer in this State or (ii) has no place of business in this State, is registered as a broker-dealer with the Securities Exchange Commission or the NASD and effects transactions in this State exclusively with or through (a) registered broker-dealers or (b) the institutions specified above with respect to this State.

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The First Boston Corporation
Dain Bosworth Incorporated
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July 24, 1984

This Memorandum is furnished only for your information. It is based upon (a) an examination of the Blue Sky laws of the States and of the rules and regulations, if any, of the authorities administering such laws, as reported in standard compilations, (b) information set forth in the form of Preliminary Official Statement dated July 24, 1984 relating to the Bonds, and (c) such other examination of documents and investigation as deemed relevant. Opinions of local counsel have not been obtained. This Memorandum is subject to the existence of broad discretionary powers in the authorities administering such laws in many States, authorizing them, among other things, to withdraw exemptions accorded by statute, to impose additional requirements, to refuse registrations and to issue stop orders, and to legislation and administrative regulations and rulings, information concerning which is not currently available to us through the standard compilations upon which this Memorandum is based.

In all instances in which this Memorandum indicated that persons registered or licensed as brokers or dealers may sell the Bonds, we have assumed compliance by such persons with all broker or dealer requirements in connection with the sale thereof and with all Federal and State statutes, rules and regulations with respect to registration or licensing. This Memorandum does not purport to cover the requirements or restrictions, if any, with respect to the offer or sale of the Bonds by a salesman of a registered or licensed broker or dealer, who himself is not registered or licensed under the laws of the State in which the offer or sale is made. Prior to such an offer or sale, further inquiry should be made.

This Memorandum does not purport to cover whether the Bonds are a legal investment. Prior to any sale of the Bonds to a bank, savings institution, trust company, insurance company or to any other purchaser which is acting in a fiduciary capacity or is subject to statutory or other restrictions as to investments, further inquiry should be made.

This Memorandum does not purport to cover the requirements or restrictions, if any, with respect to the filing, approval or use in any State of any advertising materials, including any summary of the Preliminary or definitive Official Statement.

Very truly yours,

DORSEY & WHITNEY

DORSEY & WHITNEY

A Partnership Including Professional Corporations

2200 FIRST BANK PLACE EAST
MINNEAPOLIS, MINNESOTA 55402
(612) 340-2600

TELEX: 29-0605
TELECOPIER: (612) 340-2868

August 16, 1984

\$10,485,000
State of Montana
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

The First Boston Corporation
Dain Bosworth Incorporated
D.A. Davidson & Co.
c/o The First Boston Corporation
101 California Street, Suite 4300
San Francisco, California 94111

Re: Supplemental Blue Sky Memorandum

Gentlemen:

This Memorandum supplements our Preliminary Blue Sky Memorandum dated as of July 24, 1984, which was furnished to you for use in connection with the proposed offering and sale of \$10,485,000 aggregate principal amount of State of Montana, Coal Severance Tax Bonds, Department of Natural Resources and Conservation, Water Development Program, 1984 Series A (the "Bonds").

States In Which Action Is Not Required

In the following States our survey indicates that no action need be taken before offers and sales of the Bonds may be made to the public in the respective States by brokers or dealers registered or licensed therein:

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August 16, 1984

Alabama	Kansas	North Carolina
Alaska	Kentucky	North Dakota
Arizona	Louisiana	Oklahoma
Arkansas	Maine	Oregon (2)
California	Maryland	Pennsylvania
Colorado	Massachusetts	Puerto Rico
Connecticut	Michigan	Rhode Island
Delaware	Minnesota	South Carolina
District of Columbia	Mississippi	South Dakota
Florida	Missouri	Tennessee
Georgia	Montana	Texas
Hawaii	Nebraska	Utah
Idaho	Nevada (1)	Vermont
Illinois	New Jersey	Virginia
Indiana	New Mexico	Washington
Iowa	New York	West Virginia
		Wyoming

-
- (1) In Nevada the Bonds may be sold to anyone by broker-dealers registered in Nevada and by any broker or dealer who is registered pursuant to the provisions of the Securities Exchange Act of 1934 or who is a member of the National Association of Securities Dealers, Inc.
- (2) Provided the Bonds receive a BBB or better rating by Fitch Investors Services, Inc., a Baa or better rating by Moody's Investors Services, Inc. or a BBB or better rating by Standard & Poor's Corporation.

State In Which Action Has Been Completed

In the following State action has been completed in order that offers and sales of the Bonds in the principal amount stated below may be made to the public by brokers or dealers registered or licensed in such State:

<u>State</u>	<u>Principal Amount</u>
Ohio	Entire Issue

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August 16, 1984

States In Which Action Has Not Been Taken

In the following States no action is being taken to make the Bonds eligible or to determine their eligibility for sale and the Bonds may not be offered or sold in such States (except in exempt transactions, if any, which are not described in this Memorandum):

New Hampshire
Wisconsin

The statements made in this Memorandum remain subject to the qualifications, to the extent they are now relevant, set forth in our Preliminary Blue Sky Memorandum. Terms used herein have the same meanings as defined in our Preliminary Blue Sky Memorandum.

Very truly yours,

DORSEY & WHITNEY

DORSEY & WHITNEY

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2200 FIRST BANK PLACE EAST
MINNEAPOLIS, MINNESOTA 55402
(612) 340-2600

TELEX: 29-0605
TELECOPIER: (612) 340-2868

July 24, 1984

\$11,000,000*
STATE OF MONTANA
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

The First Boston Corporation
Dain Bosworth Incorporated
D.A. Davidson & Co.
c/o The First Boston Corporation
101 California Street, Suite 4300
San Francisco, California 94111

Re: Legal Investment Survey

Gentlemen:

Attached hereto is a Legal Investment Survey which is furnished to you for use in connection with the proposed offering and sale of \$11,000,000* aggregate principal amount of Coal Severance Tax Bonds, Department of Natural Resources and Conservation, Water Development Program, 1984 Series A (the "Bonds"), of the state of Montana (the "Issuer"). The Survey supplies information in summary form concerning the eligibility of the Bonds for investment by savings banks, life insurance companies, certain other insurance companies and fiduciaries under the statutes of various states of the United States, the District of Columbia and Puerto Rico (the "States").

The Survey is based upon an examination of the applicable legal investment laws of the States as reported in standard compilations and information contained in the Preliminary Official Statement dated as of the date hereof relating to the Bonds. The Survey is based further upon the fact that the

*Preliminary, subject to change.

DORSEY & WHITNEY

July 24, 1984

The First Boston Corporation

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Issuer is a state of the United States. No special ruling relating to the Bonds has been obtained from the authorities administering the investment laws of the States, and no investigation has been made of the regulations or rulings of the banking commissions, insurance commissions or other administrative bodies or of court decisions in the respective States, nor have we obtained opinions of local counsel. We have not filed applications for admission of the Bonds to the "legal list" in any State nor have we examined such lists.

Attention is especially directed to the existence in certain States of restrictions as to the percentage of assets and the amount or character of funds which may be invested in the Bonds specifically or in securities in the same class as the Bonds by certain types of investors. The Survey does not attempt to deal with such restrictions or with any limitations as to the price which may be paid for the Bonds.

The Survey has been prepared only for the general guidance of the several Underwriters, and no savings bank, insurance company, fiduciary or other ultimate investor is entitled to rely upon it as an opinion of counsel as to the legality of any investment in the Bonds. Each such savings bank, insurance company, fiduciary or other ultimate investor should independently satisfy itself or himself that investment in the Bonds is legal as to such investor.

Unless otherwise indicated, the four categories of investors shown in the Survey are general and do not indicate the particular types of savings banks, life insurance companies, fire and casualty insurance companies or fiduciaries concerned in each instance; likewise, unless noted, the specific statutory limitations as to purchase price, character, amount and percentage of funds which may be invested, or the relationships between the investors and the Issuer, are not shown. When undefined in the appropriate statute, possible local variations in the meanings of terms such as "savings bank," "any bank organized under the laws of this state" or "state bank" have not been inquired into, nor, unless otherwise indicated, have differences in statutory requirements applicable to specialized institutions or fiduciaries been set forth. Statements made in the Survey assume proper compliance with all necessary internal procedures and approvals by the investor and also are subject to the existence of broad discretionary powers of the bank and insurance commissions or

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July 24, 1984

The First Boston Corporation

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departments or other administrative authorities of many States in the application of statutory standards. Statements made in the Survey may also be subject in some cases to the existence of limitations or exemptions in special legislation or in the charter, bylaws or other instruments by which a savings bank or insurance company is governed or under which a fiduciary acts, and in certain States to judicially developed limitations on investments of funds by the institutions or fiduciaries covered herein. Except where specifically stated, the Survey does not take into consideration the necessity for court orders which may be required prior to investment by fiduciaries of trust funds in the Bonds.

Any statement in the Survey with respect to the eligibility of the Bonds for investment refers only to the applicable legal investment laws and does not purport to cover the requirements of the securities or Blue Sky laws of the States relating to offers and sales of the Bonds.

Under no circumstances is the Survey to be considered as an offer to sell or a solicitation of an offer to buy the Bonds. Such offering is made only by the Official Statement.

Very truly yours,

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\$11,000,000*
STATE OF MONTANA
Coal Severance Tax Bonds
Department of Natural Resources and Conservation
Water Development Program
1984 Series A

LEGAL INVESTMENT SURVEY

July 24, 1984

<u>State</u>	<u>Savings Banks</u>	<u>Life Insurance Companies</u>	<u>Fire and Casualty Insurance Companies</u>	<u>Fiduciaries, as Specified</u>
Alabama	No Statute	Legal	No Statute	Prudent Investor Test(1)
Alaska	Legal(2)	Legal	Legal	No Statute
Arizona	(3)	Legal	Legal	No Statute
Arkansas	Legal	Legal	Legal	Prudent Investor Test(4)
California	(5)	Legal	Legal	Prudent Investor Test(6)
Colorado	Legal	Legal	Legal	Prudent Investor Test(7)
Connecticut	Legal(8)	Legal	No Statute	Prudent Investor Test(9)
Delaware	No Statute	Legal	Legal	Prudent Investor Test(10)
District of Columbia	No Statute	Legal	Legal	Prudent Investor Test(11)
Florida	Legal	Legal	Legal	Prudent Investor Test(12)
Georgia	Legal(13)	Legal	Legal	Prudent Investor Test(14)
Hawaii	Not Legal	Legal	Legal	Prudent Investor Test(15)
Idaho	No Statute	Legal	Legal	Prudent Investor Test(16)
Illinois	Legal(17)	Legal	Legal	Prudent Investor Test(6)
Indiana	Prudent Investor Test	Legal	Legal	Prudent Investor Test(18)
Iowa	(19)	Legal	Legal	Prudent Investor Test(20)
Kansas	(21)	Legal	Legal	Prudent Investor Test(22)
Kentucky	Not Legal	Legal	Legal	Prudent Investor Test(6)
Louisiana	Not Legal	(5)	(5)	Prudent Investor Test(6)
Maine	Legal(23)	Legal	Legal	Prudent Investor Test(6)
Maryland	(24)	Legal	Legal	No Statute
Massachusetts	Legal	Legal	Legal	No Statute
Michigan	Legal(13)	Legal	Legal	Prudent Investor Test(25)
Minnesota	(26)	Legal	Legal	Prudent Investor Test(6)
Mississippi	No Statute	Legal	Legal	Prudent Investor Test(27)
Missouri	Legal	Legal	No Statute	(28)

*Preliminary, subject to change.

<u>State</u>	<u>Savings Banks</u>	<u>Life Insurance Companies</u>	<u>Fire and Casualty Insurance Companies</u>	<u>Fiduciaries, as Specified</u>
Montana	Legal	Legal	Legal	Prudent Investor Test(6)
Nebraska	No Statute	Legal	Legal	Prudent Investor Test(29)
Nevada	Legal	Legal	Legal	Prudent Investor Test(30)
New Jersey	Legal	Legal	Legal	Prudent Investor Test(31)
New Mexico	Legal	Legal	Legal	Prudent Investor Test(32)
New York	Legal	Legal	Legal	Prudent Investor Test(33)
North Carolina	No Statute	Legal	Legal	Prudent Investor Test(34)
North Dakota	No Statute	Legal	Legal	Prudent Investor Test(6)
Ohio	(35)	Legal	Legal	Prudent Investor Test(36)
Oklahoma	Legal(13)	Legal	Legal	Prudent Investor Test(6)
Oregon	(5)	Legal	Legal	Prudent Investor Test(30)
Pennsylvania	Prudent Investor Test	Legal	Legal	Prudent Investor Test(37)
Puerto Rico	Not Legal	Legal	Legal	No Statute
Rhode Island	Legal	No Statute	No Statute	Legal(6)
South Carolina	No Statute	Legal	Legal	Prudent Investor Test(6)
South Dakota	Legal(13)	Legal	Legal	Prudent Investor Test(30)
Tennessee	Legal	Legal	No Statute	Prudent Investor Test(38)
Texas	Legal	Legal	Legal	Prudent Investor Test(39)
Utah	No Statute	Legal	Legal	Prudent Investor Test(6)
Vermont	Legal(40)	Legal(41)	Legal(41)	No Statute
Virginia	No Statute	Legal	Legal	Legal(42)
Washington	Legal(2)	Legal	Legal	Prudent Investor Test(43)
West Virginia	Legal	Legal	Legal	Prudent Investor Test(44)
Wyoming	No Statute	Legal	Legal	Prudent Investor Test(30)

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- (1) The following fiduciaries are specified: trustees, executors, guardians, or those acting in any other fiduciary capacity.
 - (2) Legal, for mutual banks.
 - (3) The Bonds must be listed in the manuals published by the established rating agencies and have a standard rating above the first four grades and the investment must be approved in writing by at least two-thirds of the directors of the bank and the superintendent of banks.
 - (4) The following fiduciaries are specified: trustees, guardians and personal representatives.

- (5) The Bonds are not specifically legal for investment. However, the statute permits certain limited amounts of funds to be invested in securities not otherwise legal for investment, subject in certain instances to a "prudent investor" test or approval by the proper state authority or by the board of directors of the investor.
- (6) The following fiduciaries are specified: trustees.
- (7) The following fiduciaries are specified: original or successor administrators, special administrators, administrators cum testamento annexo, executors, guardians, conservators and trustees, whether of express or implied trusts.
- (8) Provided that the Bonds are rated within the top three rating categories in any rating service recognized by the commissioner, or in the opinion of the savings bank the investment is prudent.
- (9) The following fiduciaries are specified: trustees, guardians and conservators.
- (10) The following fiduciaries are specified: trustees, personal representatives, guardians and custodians under the Uniform Gifts to Minors Act and other fiduciaries.
- (11) The following fiduciaries are specified: fiduciaries subject to supervision by the United States District Court for the District of Columbia.
- (12) The following fiduciaries are specified: executors, administrators, trustees, guardians (except guardians holding funds received from or currently in receipt of funds from the Veterans Administration to the extent of those funds alone), or other persons, whether individual or corporate, who by reason of a written agreement, will, court order or other instrument, have the responsibility for the acquisition, investment, reinvestment, exchange, retention, sale or management of money or property of another.
- (13) Provided the Bonds are considered "investment securities."
- (14) The following fiduciaries are specified: executors and trustees acting under instruments made after the effective date (July 1, 1972) of the Georgia statute adopting the present "prudent investor" test.

- (15) The following fiduciaries are specified: trustees (other than trust companies acting as such).
- (16) The following fiduciaries are specified: fiduciaries, including any bank, trust company or individual authorized and duly appointed, by a court of competent jurisdiction, to act as a guardian under the laws of the State of Idaho.
- (17) Provided the Bonds are considered "marketable investment securities."
- (18) The following fiduciaries are specified: guardians and trustees.
- (19) The statute permits investment in "readily marketable bonds or securities with investment characteristics as defined by the superintendent by general regulation applicable to all state banks."
- (20) The following fiduciaries are specified: all fiduciaries acting under the jurisdiction of the court.
- (21) The Bonds are not specifically legal for investment. However, the statute permits investment in any type of investment security with the approval of the commissioner and upon such conditions and under such regulations as are prescribed by the state banking board.
- (22) The following fiduciaries are specified: all fiduciaries acting under wills, agreements, court orders and other instruments; however, conservators are specifically excluded from reliance upon the "prudent investor" test.
- (23) Provided the Bonds are rated within the three highest grades by any rating service approved by the Maine Bank Superintendent.
- (24) Savings banks may invest funds "on good security."
- (25) The following fiduciaries are specified: any person or corporation acting in a trust or fiduciary capacity.
- (26) Legal, provided the Bonds are rated among the three highest quality categories used by a nationally recognized rating agency for rating the quality of similar bonds or other interest bearing obligations, and are not rated lower by any other such agency.
- (27) The following fiduciaries are specified: trustees, guardians, and other fiduciaries.

- (28) Legal for guardians provided the court finds, after a hearing, that the Bonds are a "reasonable and prudent investment in the circumstances."
- (29) The following fiduciaries are specified: trustees, guardians, conservators, executors and administrators.
- (30) The following fiduciaries are specified: those acting under "wills, agreements, court orders and other instruments."
- (31) The following fiduciaries are specified: individuals or corporations authorized to act as trustees, personal representatives, conservators, guardians and every other person or corporation charged with the duty of administering a trust estate.
- (32) The following fiduciaries are specified: trustees and conservators.
- (33) The following fiduciaries are specified: fiduciaries, including personal representatives, trustees, guardians, donees of a power during minority, committees of the property of an incompetent person and conservators of property of a conservatee.
- (34) No particular fiduciaries are specified.
- (35) Legal investments include bonds of any state or political subdivision of a state which are payable solely out of anticipated revenues under such conditions and restrictions as the Superintendent of Banks of the State of Ohio may prescribe.
- (36) No particular fiduciaries are specified; however, guardians for a beneficiary of the Veterans Administration may not invest in the Bonds and administrators and executors may invest in the Bonds subject to certain restrictions imposed by Section 2109.37 of the Ohio Revised Code.
- (37) The following fiduciaries are specified: guardians, committees, trustees and other fiduciaries, whether domiciliary or ancillary, subject to the jurisdiction of the common pleas court, but not personal representatives.
- (38) The following fiduciaries are specified: trustees, guardians (except guardians acting under the Uniform Veterans' Guardianship Act) and other fiduciaries.

- (39) The following fiduciaries are specified: trustees, but not guardians.
- (40) Provided the Bonds are rated within the first four grades by a nationally recognized investment rating agency.
- (41) Provided the investment is "prudent."
- (42) The following fiduciaries are specified: executors, administrators, trustees and other fiduciaries, both individual and corporate.
- (43) The following fiduciaries are specified: guardians and other fiduciaries.
- (44) The following fiduciaries are specified: executors, administrators, guardians, curators, committees, trustees or other fiduciaries.



